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Fuelling the (party) machine: The political origins of the Greek debt during Metapolitefsi

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Abstract: The present paper investigates the possibility of political economy incentives behind the allocation of the markedly expanded fiscal account of intergovernmental transfers to prefectures and municipalities during *Metapolitefsi* – i.e., the period after the establishment of the Third Hellenic Republic (1974 to 1993). Building on a novel dataset of *expenses to prefectures* and *subsidies to municipalities,* we employ a Difference-in-Differences framework and a Regression Discontinuity Design respectively. Our analysis suggests that incumbent parties diverted prefectural expenses towards their political strongholds, and subsidies to politically aligned mayors. We argue that the expansion of intergovernmental transfers which contributed significantly to the derailment of the Greek state resulted from the transformation of the political system from traditional patron-client relationships to bureaucratic clientelism. On this basis, appointed prefects and politically aligned mayors became major components of a centralized party machine to mobilize voters through mass memberships "at the level of the town and the village" in the new era of *Metapolitefsi*.

JEL classification: H1; H4; D7

Keywords: intergovernmental transfers; clientelistic networks, party machine.

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1. Introduction

The miraculous evolution of the Greek economy during the post-war period came to an abrupt end after 1974 (see e.g. Alogoskoufis, 1995; Moutos and Pechlivanos, 2015). This is the year that democracy is restored in Greece after a brief military junta (1967-1974) and the Third Hellenic Republic is established, thereafter referred to as the *Metapolitefsi* (i.e., change of regime).[1] Prior to this era, the annual output growth of the Greek economy from 1953 to 1973 was on average close to 7 percent (exceeding by about 2-3 percentage points the OECD average), the annual inflation rate was on average below 4 percent, and the primary public deficits were rarely higher than 2 percent of GDP.[2] From 1974 to 1993 this macroeconomic performance was completely reversed. In particular, this period was characterized by substantially lower annual growth rates of output (in most of the years lower than 2 percent), high levels of inflation (around 18-20 percent), and persistently high levels of primary public deficits that resulted in the explosion of public debt from 17.5 percent of GDP in 1974 to 97.6 percent in 1993 (see Figure 1). The latter, contributed to a highly painful vicious cycle of fiscal destabilization that has been haunting the Greek economy ever since (see e.g., Meghir et al., 2017; Alogoskoufis, 2019).

[Insert Figure 1, here]

Most of the existing studies attribute this radical turn in macroeconomic performance to the big institutional regime switch of *Metapolitefsi* (see Alogoskoufis, 1995; Katsimi and Moutos, 2010; Moutos and Pechlivanos, 2015). Particularly, until 1974 the Greek state was powerful and autocratic (both politically and economically) and the government had substantial control over the economy through effective influence on labour unions and direct control on the banking and financial system. This institutional framework was ensuring efficient

[1] The relevant literature usually defines four distinct periods in post-war Greek economic history: (i) 1944-1952 the period of International Aid and Reconstruction; (ii) 1953-1973 the economic transformation and catching up period; (iii) 1974-1993 the restoration of democracy and redistribution period; and (iv) 1994-2008 the last period before the sovereign debt crisis that is characterized by a further expansion (along with some rationalisation) of the welfare state, fast growth rates and EMU entry (see, e.g., Moutos and Pechlivanos, 2015; Kostis, 2019). Following this categorization, the paper at hand places the spotlight on the third period (1974-1993) characterized by fiscal destabilization and radical turnaround in macroeconomic performance.

[2] From 1953 to 1973 Greece was the second most rapidly developing economy among OECD countries. The first one was Japan (see Meghir et al., 2017; Kostis, 2019). During this period, the share of services in GDP remained constant (around 50 percent), whereas the share of secondary sector increased from 20 percent in 1953 to 35 percent in 1973. So, this performance does not reflect solely a catching up process, but a more structural shift of the economy from low productivity sectors (i.e., agriculture) to high productivity ones (i.e., manufacturing) (see Moutos and Pechlivanos, 2015).

commitment and coordination mechanisms that guaranteed high return to capital and fostered private investment and economic growth (see e.g., Alogoskoufis, 1995; Iordanoglou, 2020). At the same time, the monetary policy was tight -due to the participation of drachma on the Bretton Woods system- and the fiscal policy highly disciplined.[3]

After the restoration of democracy on July 24, 1974, the above-mentioned checks and balances gradually disappeared, and a new institutional and political framework emerged. According to this view, *Metapolitefsi* produced an economic environment that was discouraging private investment through increased uncertainty, while it prioritized politically motivated redistributive policies (see Meghir et al., 2017; Kostis, 2019). Social groups (such as small business owners, merchants, independent professionals, and small farmers) gained significant political power and the elected governments were struggling to satisfy their demands for redistribution by increasing the public sector and by persistently running large public deficits.[4] It has been argued that the restoration of democracy and the collapse of the previous institutional regime was viewed by the majority of the electorate "[…] *as an opportunity of a less centralized political system and redistribution of power among the country's regions and social groups*" (see Alogoskoufis, 2019).

Public demand for a less centralized political system brought fundamental changes on the organizational structure of the Greek political parties and consequently on the nature of the clientelistic relations through which the political system until then was mobilizing mass support. Starting from Lyrintzis (1984) and Mavrogordatos (1983; 1997), many scholars suggest that, after the restoration of democracy, the pre-junta party system, which was based on traditional interpersonal patron-client relationships, was transformed fundamentally. In particular, the new parties that emerged were characterized by stronger organizational structure and clientelistic networks that are described by the relevant literature as "bureaucratic clientelism" or "machine politics" (see, e.g., Mavrogordatos, 1997).[5] Does this transformation

[3] It must be noted that the economic regime which prevailed during the "Regime of the Colonels" (1967-1974) was basically a continuation of the policies adopted by democratic governments during the 1950's and the 1960's (see Alogoskoufis,1995 for more details on this).

[4] We must highlight that during that period, Greece was also a newly established democracy. Starting from Linz and Stepan (1996), there is a large strand of the literature which suggests that increased budget deficits and fiscal manipulation have often been employed as instruments by newly established democratic governments in order to convince citizens that democracy is superior to any other form of governance and to consolidate the pro-democratic institutions (see Brender and Drazen 2007; Kammas and Sarantides, 2016).

[5] To better understand the different types of clientelistic ties that we observe in Greek politics through time, we should make clear the distinction between *traditional clientelism* and *machine politics* (for more details on this see Mavrogordatos, 1983; 1997). The typical structure of *traditional clientelism* are patron-client relationships that form pyramids with members of parliament (MPs) or other politicians at the top, local party bosses (*kommatarches*) in the middle and individual voters (typically peasants) at the base. In this case, the clientelistic ties are interpersonal and the networks of local bosses and middlemen belongs personally to the MPs. (It was a

of the political system, from traditional patronage to machine politics, lie behind the explosion of government debt after the restoration of democracy? To what extent the organizational structure of the post-junta dominant Greek parties and the consequent intra party politics may have contributed to the vicious cycle of fiscal destabilization that followed ever since?

The paper at hand seeks to answer the above questions by investigating the potential political economy motives behind the allocation of intergovernmental transfers to prefectures and municipalities during the first two decades that democracy is restored (i.e., from 1974-1993). Both appointed prefects and aligned mayors were important allies of the centralized parties' machines to mobilize voters through mass memberships "at the level of the town and the village" in the new era of *Metapolitefsi*. It is worth noting that *expenses to prefectures* and *subsidies to municipalities* increased substantially during the period under investigation contributing greatly to the fiscal derailment.[6] More precisely, *expenses to prefectures* increased by almost 600 percent in real per capita terms between 1974-1993, whereas *subsidies to municipalities* increased by around 1000 percent in real per capita terms during the same period (see below for more details on this). Therefore, a detailed investigation of political distortions behind their allocation appears to be *sine qua non* as to understand the functioning of the whole political system during *Metapolitefsi*. A further advantage of focusing on the allocation of intergovernmental transfers is that we can observe the final target of the benefit (i.e., the prefecture or the mayor that receives the transfer), which allows the use of estimation techniques that address a series of important identification concerns.

In particular, the empirical analysis takes place along two layers, namely *prefectures* and *municipalities*. In the former, we employ a Difference-in-Differences (DD) framework to investigate how changes in the distribution of political support between the conservative (1974-1981) and socialist (1981-1989) governments affected the regional allocation of the budget towards appointed prefects. In the latter, we adopt a Regression Discontinuity Design (RDD)

common practice these networks (factions) to be transmitted as inheritance -or even as dowry- within the same family from one generation to the other). It is obvious that in such a context the MPs are the ultimate centre of political power and consequently parties were built structurally around these networks of local notables. The absence of effective party organization and mass membership constituted party's parliamentary group extremely powerful (this situation is often described as *vouleftokratia* ("rule of the MPs") in the relevant literature). In contrast, *bureaucratic clientelism* or *machine politics* is defined as the situation that the party machine is powerful and the clientelistic linkages are impersonal and belong to the party rather than to individual politicians. In such a context, the collective organs and the party bureaucracy become the actual centres of political power.

[6] The relevant literature usually highlights the growth in: (i) social transfers (especially spending on pensions); and (ii) compensation of public employees (due to increases in both the numbers of public employees as well as their real wages) as the main driving forces behind the fiscal destabilization (see Moutos and Tsitsikas, 2010; Kostis, 2019). To the best of our knowledge, this is the first study which investigates how central government transfers contributed to the significant growth of the public debt.

in close mayoral electoral races following the rationale and the empirical methodology suggested by Lee (2008). Empirical findings provide strong evidence of political distortions behind the allocation of intergovernmental transfers to prefectures and municipalities during *Metapolitefsi*.

Specifically, the analysis suggests inflated budgets towards appointed prefects in regions characterized by stronger political support for the incumbent (i.e., political strongholds) - especially during the electoral and pre-electoral years of national elections. Moreover, we show that mayors who are politically aligned with the government received larger amounts of subsidies. In both cases, appointed prefects and politically aligned mayors could be important allies of the incumbents at the local level in national elections, consisting major components of the transformed clientelistic networks in the new era of *Metapolitefsi* (see e.g., Mavrogordatos, 1997).[7]

The rest of the paper is organized along the following lines. Section 2 provides a brief description of the Greek political landscape, and discusses how the restoration of democracy affected the evolution of public finances. Sections 3 and 4 present the estimation strategy and the empirical findings at the prefecture and municipality level respectively. Finally, Section 5 offers our concluding remarks.

2. The Greek political landscape and the evolution of public finances

In this section, we describe how increased demand for a less centralized political system brought fundamental changes on the organizational structure of political parties after the restoration of democracy - and in turn how this affected the type of the clientelistic relationships and consequently the implemented fiscal policy. To this end, we begin with a short description of the political forces that formed the pre-junta party system, then we proceed by focusing on the political parties which dominated the post-junta Greek politics, and, finally, we analyse the evolution of public finances during the period of *Metapolitefsi*.

2.1 The pre-junta political system (1952-1967)

[7] In the new era of *bureaucratic clientelism*, the relative political power of appointed prefects and mayors increased substantially, since they became major links between the local grassroots of the party and the party machine (see, Elephantis, 1981 for more details on this). In contrast, before 1974, the relative political power of the MPs was, by far, more significant and this is the reason why the political context during that period was usually described as *vouleftokratia* (i.e., "rule of the MPs") (for more details on this, see Mavrogordatos, 1983; 1997).

The system that emerged after the occupation of Greece by the Axis forces (1941-1944) and the subsequent Greek Civil War (GCW) (1946-1949)[8], consisted basically of three major political groups that could be identified as the Right, the Center and the Left (see Nicolacopoulos, 2001). The dominant right-wing parties were the *Greek Rally* (*Hellinikos Synagermos*) founded in 1951 by Alexander Papagos, and after Papagos's death (in 1955) the *National Radical Union (ERE - Ethniki Rizospastiki Enosis)* founded by Constantine Karamanlis. The Rally's victory in the national elections of 1952 established a long period of uninterrupted right-wing governments (1952-1963). During the same period, the Center did not manage to remain united. The fragmentation of this political group only ended in 1961, when the *Center Union* (*Enossis Kentrou*) was formed bringing together the various center groups under the leadership of George Papandreou. The *Center Union* won the national elections of 1963 and 1964, but remained in power only until 1965 when the King intervened in party politics and the party was finally split.

For the purposes of our analysis, it is important to highlight that both the *Center Union* and *ERE* (as well as the *Greek Rally*) were political parties characterized by weak organizational structure and absence of mass membership. Without a strong party machine - that would mobilize the voters- these parties were based on networks of well-known politicians leading strong local and regional factions (see Lyrintzis, 1984; Meynaud, 2002).[9] Therefore, their political power was highly dependent on the effectiveness of these traditional interpersonal patron-client relationships between local politicians (usually members of parliament) and individual voters (see, e.g. Mavrogordatos, 1997).[10] In such a context, the party's MPs was a major centre of political power, and therefore party leadership had to cooperate with it and take into account its view over a large number of issues. This situation of traditional patronage is often described in the relevant literature as *vouleftokratia* (i.e., "rule of

[8] The cost of the GCW was terrifyingly high in terms of human losses, but also the cost for the economy was huge resulting in a missed opportunity for a quick post-war recovery along the other European nations (see Christodoulakis, 2015).

[9] The quest for development of modern parties out of the maze of factions goes back to the second half of the 19th century. In particular, the first serious attempt to transform the various factions (the so-called *fatriae*) into principled parties was made around the mid-1870s by the Prime Minister Charilaos Trikoupis (see, e.g., Legg, 1969; Pappas, 1999; Hering, 2008). More specifically, Trikoupis attempted to modernize the country's political life by "transforming parties from personal to real, and to reduce their number from many to two". Although Trikoupis failed to establish a political environment characterized by modern parties with solid organizational structure (i.e., party machine branches throughout the country) and a certain set of programmatic principles, a first step was made towards this direction under his rulership. It has been argued that during that period the Greek political system was transformed from a context in which only pure factions existed (that is *factions qua parties*) to one characterized by *parties composed by factions* (see, e.g., Pappas, 1999).

[10] Although *ERE* was the archetypical party of local notables, the *Center Union* also failed to develop a strong bureaucratic machine and followed the traditional organizational structure of the post-war Greek parties. The only exception to this, was the party organization of the youth people of Center Union (see e.g., Meynaud, 2002).

the MPs").[11] This does not imply that the party leadership was politically weak compared to the parliamentary group. Especially in the case of *ERE*, the party leader (i.e., Constantine Karamanlis) was politically very powerful (see e.g., Pappas, 1999; Meynaud, 2002). It means, however, that in the absence of an autonomous party organization, the intra-party power was concentrated at the hands of the party's leader and the party's parliamentary group and therefore the political system was highly centralized (see e.g., Meynaud, 2002).

2.2 The post-junta political system (1974-1993)

Most of the comparative studies which investigate the patterns of the political forces in Greece before and after the "Regime of the Colonels", highlight the deep structural changes which occurred between 1966 and 1974 (see e.g., Lyrintzis, 1984; Pappas, 1999). More precisely, none of the pre-junta political parties survived in its previous form and the new parties that were created, diverged substantially from their predecessors in structure, functioning and program. The most impressive event of this period was, definitely, the immediate rise of the *Panhellenic Socialist Movement* (*PASOK - PAnellinio Socialistiko Kinima*). PASOK was founded on September 3, 1974 by Andreas Papandreou and seven years later (in the elections of 1981) had achieved to come into office by fully absorbing previous political formations of the Centre (see Nicolacopoulos, 2005). During the same period (on September 26, 1974), Constantine Karamanlis announced the formation of the *New Democracy* (*ND - Nea Dimokratia*) party by emphasizing that *ND* was a "new political movement" and not the party of *ERE* under a different name (see Loulis, 1981). Before looking individually at the organizational structure of these two political forces that dominated the post-junta Greek politics, it is necessary to briefly describe the general political and electoral context during *Metapolitefsi*.

In the first parliamentary elections that took place on November 17, 1974, ND won a landslide victory with 54 percent of the valid votes cast. Other new parties that appeared were the second-power *Centre Union-New Forces* (*EK-ND - Enosi Kentrou-Nees Dynameis*) under Georgios Mavros that achieved 20.4 percent, and *PASOK* which came third with 13.6 percent of the valid votes cast. In the elections of 1977, *ND* retained its majority with 41.84 percent, though the big surprise was the success of *PASOK* which almost doubled its electoral strength

[11] It must be noted that both leaderships of Constantine Karamanlis and George Papandreou had been decided by the groups of MPs of the relevant parties without intervention of any other administrative body (e.g., Party Congress, General Committee) (see Meynaud, 2002, for more details on this).

(25.3 percent) and so became the main opposition party.[12] In 1981, *PASOK* won the elections with 48.1 percent - against the 35.9 percent of *ND* – and Andreas Papandreou formed the first socialist government in the history of Greece. Then, in 1985, *PASOK* won its second four-year term in government with 45.8 percent, despite the relative rise of *ND* (40.8 percent) under the new leadership of Konstantinos Mitsotakis. Finally, after two elections in 1989 that ND won, but failed to form a parliamentary majority, gained a majority of only two MPs in the Greek parliament after its win with 8 percentage points in the election of April 1990.

By focusing on the issue of the organizational structure, PASOK was the first non-communist mass party in Greece.[13] Although it absorbed several personalistic patronage networks associated with the old *Center Union* party, it formed an extensive national network based on both local and regional branches with thousands of members (see Pappas, 2009; Kalyvas, 2015). For the purposes of our analysis, it is important to note that, according to PASOK's leader Andreas Papandreou, the traditional organizational pyramid of pre-junta political parties had failed to include the base of the pyramid on their decision process. The strategy of PASOK, according to its leader, was to enforce the "democratic procedures by creating grassroots organizations at the level of the village and town […] so as to promote the genuine expression of popular opinion on general development targets and on the national political options of our country" (see e.g., Elephantis, 1981). Thus, PASOK from its very beginning gave absolute priority to the development of local and regional organizations, creating a wide network of grassroots movements and a rank-and-file organization which developed through the whole country (see, e.g., Elephantis, 1981; Lyrintzis, 1984). This procedure of "political decentralization" induced substantial increase in the relative political power of the party committee at the prefectural level and of the mayors, since both became major organizational links between the party machine and the masses (see Elephantis, 1981). In this new political environment -characterized by a new kind of intra party politics- the prefectural party committee becomes the actual center of political power within the party that even the MPs have to cooperate with (see Mavrogordatos, 1997).

During the same period, the ND leadership made also a significant effort to develop a strong party organization with a large number of active members. According to Constantine

[12] Because of *PASOK*'s success, the vote share obtained by George Mavros' centrist party slumped to 11.95 percent, leading within a few years to its gradual disintegration from the political system (Mavrogordatos, 1984).
[13] The Greek left has traditionally been identified with the *Communist Party of Greece (Kommounistiko Komma Ellados)*. KKE was characterized from its very beginning by a well-organized mass base and a highly-centralized structure. Therefore, KKE was definitely the first mass party in Greece (see Elephantis, 1981; Lyrintzis, 1984, for more details on this).

Karamanlis, old-style parties of notables like *ERE* and *Centre Union* -which were lacking autonomous organization and mass memberships and were based on semiautonomous politicians who were commanding local factions of personally-loyal voters- could not survive in the new post-junta political environment (see Pappas, 1999). The politically autocratic Greek state of the pre-junta period had ceased to exist and, therefore, the political parties were deprived from support by external institutions (e.g., the King). In this new era, the parties should rely on their own forces and organize a centralized party machine to mobilize voters through mass memberships (see Pappas, 1999). To this end, in September of 1975, ND formed its first 50 regional organizations and 40 local organizations. Until the April of 1976, the number of local organizations had risen to 233 and the party memberships were approximately 20.000 (see Loulis, 1981). Although these figures highlight the considerable efforts of the party to recruit members and to develop an autonomous party machine, the overall result was not very satisfactory. This becomes obvious if one considers that, during the same period, PASOK had already 27.000 members (that represented a 4 percent of its vote) and a much wider network of 460 local organizations and 500 cells. (i.e., a highly-decentralized level of organization that was totally absent from the organizational structure of ND).[14]

The political empowerment of parties' local organizations, and the consequent upgrade of the prefects and mayors, was accompanied by a significant increase of central government spending allocated to prefectures and municipalities (see Section 2.3 for more details on this). This is because in the new political environment of *Metapolitefsi*, appointed prefects and politically aligned mayors became chief components of the party machine and functioned as an arm of the governing party "at the level of the town and the village".

2.3 The evolution of public finances since Metapolitefsi

After the restoration of democracy in 1974, a period of fiscal laxity started, which became worse in the late 1970s and continued until the early 1990s. As shown in Figure 2, the Greek state was expanding persistently during *Metapolitefsi*, running at the same time growing primary public deficits that led to the explosion of the public debt from 17.5 percent of GDP in 1974 to 97.6 percent in 1993 (see Figure 1). By employing aggregate data, previous studies highlight several political economy motives behind the observed fiscal destabilization (see e.g., Moutos and Tsitsikas, 2010; Moutos and Pechlivanos, 2015). Among these motives, there is evidence of political budget cycles (PBC) from 1974 to 1993 (see e.g., Lockwood et al., 2001).

[14] See Loulis (1981) and Kalyvas (2015) for further details.

In other words, the Greek governments manipulated fiscal policy instruments in order to increase their re-election chances. Figure 3 supports this evidence by showing that total public expenses and the budget deficit increase on average by 3.9 and 2.7 percentage points of GDP, respectively, during election years.

[Insert Figure 2 and 3, here]

We argue that the most significant cause of the fiscal derailment was the transformation of the political system and the associated increased fiscal needs of the governing parties to develop and support the party machine. Our analysis places the spotlight on the evolution of intergovernmental transfers to prefectures and municipalities. The reason is threefold. First, intergovernmental transfers increased substantially during the period under investigation, contributing greatly to the fiscal derailment. It is worth noting that the correlation between government debt and intergovernmental transfers to prefectures and municipalities during 1974-1993 is 90 and 96 percent, respectively. Despite that, this is the first study which investigates the political economy forces behind this specific government spending account. Second, a big advantage of focusing on this fiscal account is that we can observe the final target of the benefit (i.e., the prefecture or the mayor that receives the transfer), allowing the use of estimation techniques that address a series of important identification concerns. Third, from a theoretical point of view, both appointed prefects and aligned mayors were important allies of the centralized parties' machines to mobilize voters through mass memberships "at the level of the town and the village" in the new era of *Metapolitefsi* (see e.g., Mavrogordatos, 1997). Therefore, we would expect significant political distortions in the spatial allocation of the inflated fiscal account of intergovernmental transfers within the Greek territory.

Regarding the budget allocated to prefectures, as can be seen in Figure 4, it increased by almost 600 percent in real per capita terms between 1975-1993 - predominantly driven by the administration of PASOK between 1982-1989. At its peak in 1989, *prefectural expenses* accounted for 7.6 percent of the total budget of the general government. This account includes expenses of the prefectures for wages and salaries and services in various sectors, such as health and education.[15]

[15] It should be noted though that this account does not include funds transferred to prefectures as part of the Public Investment Budget that inflated also during the same period (see, Kammas et al., 2020).

[Insert Figure 4, here]

Municipalities receive subsidies from the central government which can be separated into two main categories. First, non-discretionary (formula-based) subsidies from the state budget. These are constituted primarily by socioeconomic, demographic and spatial variables that are specified as normative variables. Second, discretionary subsidies, that are compatible with local public services of each municipality. This type of subsidies consists of three components: subsidies allocated from the central government to local authorities for public works in an effort to decrease local unemployment; discretionary subsides allocated from the central government to municipalities via regional (prefectures) authorities; and miscellaneous subsidies authorized from the central government. Figure 5 shows the evolution of discretionary and non-discretionary subsidies to municipalities expressed in real per capita terms. Both types of subsidies increased (significantly) by around 1000 percent between 1975-1993. Figure B1, in the Appendix, shows subsidies expressed as a percentage of the total budget of municipal authorities. In 1975, total municipal subsidies account for around 18 percent of the municipal budget, whereas by 1993 this figure increases to 45 percent. Given that municipal budgets expanded on average by almost 200 percent between 1975-1993, two regularities stand out. First, the expansion of municipal budgets was driven by state funding - not by funds raised by local authorities. Second, over time municipal authorities became more dependent on discretionary funding determined and allocated by the central government. In particular, discretionary subsidies rise proportionally more in comparison to formula-based subsidies over time, and in 1985 the former account for 61 percent of total subsidies.

[Insert Figure 5, here]

3. The Prefectural Level of Analysis

3.1 Data

The Modern Greek state consists of the central state, mainly ministries and similar national institutions, and the local government agencies. During the early years of *Metapolitefsi*, local administration was divided in two levels: the prefectural units (Level 2), and the municipalities and communities (Level 1). In particular, Greece was organized in 52 prefectures (NUTS-3), whereas the number of municipalities (LAU-1) and communities (LAU-2) in each prefecture

varies across time.[16] Up until the mid-1980s Greece consisted of 5,775 municipalities and communities, whereas more than 80 percent of these rural municipalities and communities had less than 1,000 inhabitants. As a result, their majority could not take over a significant part of public responsibilities. Overall, Greece has been described as one of the most centralist states in Europe, with local authorities restricted to residual tasks (Hlepas, 2003). This started to change after 1981, an era where PASOK undertook some reform efforts (Christofilopoulou, 1991). Despite that, local administration remained without independent taxing authority, poor financial resources and growing dependence on the central government (see Hlepas, 2003; 2011). In this section, our analysis aims to investigate the possibility of political bias in the allocation of central government budget to the appointed prefects[17], by constructing the variable *prefectural expenses* expressed in real per capita terms.

Moreover, using the outcomes of legislative elections of 1974, 1977, 1981, 1985 and 1989, we construct the variable *victory margin* for the period 1975-1993.[18] This is the difference between the incumbent share and the opposition share[19], relative to the entire voting-eligible population.[20] Figure B2 in the Appendix maps the *victory margin* of ND and PASOK after their first electoral wins in the elections of 1974 and 1981, respectively, at the prefectural level (NUTS-3). As it can be seen, areas in the Peloponnese region voted strongly over time in favour of ND, while prefectures in the Crete Island (in the southern part of the Aegean Sea) are political strongholds of PASOK. Explicit definitions, descriptive statistics and sources of the variables employed throughout the prefectural analysis, are provided in Table B1 in the Appendix.

Finally, in the analysis that follows, we add a number of covariates that are expected to affect the allocated budget to prefectures. In particular, the matrix of prefecture-level

[16] NUTS is a geocode standard of EUROSTAT, the Statistical Office of the European Union, which stands for Nomenclature of Territorial Units for Statistics. LAU denotes Local Administrative Units, which are building blocks of the NUTS, and comprise the municipalities within each country of the European Union.

[17] This changed with Law 2218/1994 which introduced the election of prefects and prefectural councils along with mayors and municipal elections. See Lavdas (1997) for a historical analysis.

[18] Specifically, we forward prefecture level electoral results up to (and including) the year of the next general election (see, e.g., Jablonski, 2014). For instance, we forward the election results of 1974 up to (and including) the next election year of 1977. In addition, we restrict our dataset after 1975 because this is the first year that the incumbent party of *ND* had discretion over fiscal policy after its victory in the election held in November of 1974.

[19] The opposition share is the share of votes received by the two leading opposition parties between 1975-1981 (i.e, EK-ND and PASOK), or the leading opposition party between 1982-1993 (i.e., ND). The reason for this differentiation is that during 1982-1993 we have a dominant opposition party (ND between 1982-1989 and PASOK between 1990-1993), while between 1974-1981 the centrist party *EK-ND* and *PASOK* alter in the second and third place with the summation of their strength close to 35 percent. More importantly, as explained above, *PASOK* absorbed the majority of *EK-ND* supporters in the transition of its growing influence.

[20] We opt for this measurement since it allows us to better account for endogenous turnout (see Spenkuch and Tillmann, 2018). However, in robustness checks reported in the Appendix, we use voting shares relative to valid votes cast and our results remain unaffected.

observable characteristics includes the population of each prefecture (*population*); the share of households with access to electricity (*electricity*); the share of individuals employed in the agricultural sector (*agriculture*); and the share of individuals who are illiterate (*illiterates*). We use these variables in order to capture the effect of urbanisation, prosperity and development that are expected to affect the allocation of regional allocation of transfers from the central government (see Solé-Ollé and Sorribas-Navarro, 2008; Joannis, 2011).

3.2 Fixed effects regressions

To estimate the association between political support and *prefectural expenses*, we begin by estimating a prefecture-level fixed-effects model of the following form:

$$prefectural\ expenses_{it} = \alpha_0 + \alpha_1 victory\ margin_{it} + \beta X_{it} + \delta_i + \gamma_t + \varepsilon_{it} \qquad (1)$$

where $prefectural\ expenses_{it}$ denotes the natural logarithm of real per capita prefectural expenses in prefecture *i* at time *t*; $victory\ margin_{it}$, which is the main variable of interest, refers to prefecture *i* in the last election; X_{it} is a vector of control variables as described above. The model also includes prefecture, δ_i, and year fixed effects, γ_t, to control for time-invariant prefecture characteristics and shocks common to all prefectures. Finally, ε_{it} is the error term clustered at the prefecture level. According to our theoretical priors, the coefficient on *victory margin* must have a positive sign.

Table 1 displays our first empirical results. We can notice in column (1) that the coefficient on *victory margin* is positive and highly significant indicating that incumbent parties tended to divert *prefectural expenses* in their strongholds. Qualitatively, our estimate suggests that prefectures with the highest value of *victory margin* receive, on average, a 12 percent higher budget in comparison to prefectures with the lowest value.[21]

Our next task is to examine whether the association observed between political support and *prefectural expenses* is stronger around electoral years. To this end, we estimate the following equation:

$$prefectural\ expenses_{it} = \alpha_0 + \alpha_1 victory\ margin_{it} + \alpha_2 victory\ margin_{it} \cdot election_t + \beta X_{it} + \delta_i + \gamma_t + \varepsilon_{it} \qquad (2)$$

[21] Given that the outcome is logged Greek Drachmas per capita, the percentage change effect is calculated by $e^{\lambda} - 1$, with λ being the estimated coefficient on victory margin (α_1) multiplied by the distance between the maximum and the minimum value of victory margin.

As it can be seen, Equation (2) has been augmented with the interaction term $victory\ margin_{it} \cdot election_t$. Given that national election years are constant within prefecture years, only the coefficients of *victory margin* and the interaction term between the latter and *election* are reported in columns (2) and (3) of Table 1. We use two different versions of the variable *election* in our estimates: (i) it takes the value 1 in national election years (e.g., 1981), and 0 otherwise; (ii) it takes the value 1 both in national election and pre-election years (e.g., 1980-1981), and 0 otherwise. As shown in Table 1, only the coefficient of the interaction term in column (3) is positive and statistically significant. Overall, this indicates that incumbent parties tended to divert *prefectural expenses* in their strongholds, and even more so during the electoral and pre-electoral years of national elections. In Appendix B, we re-run these estimates using political support variables as shares of valid votes cast and testing for outlier observations. As can be seen in Tables B4-B5 the relationship between political support and *prefectural expenses* remains intact.

[Insert Table 1, here]

3.3 Difference-in-Differences estimates

In this sub-section, we exploit the political change that occurred in 1981 as a source of exogenous variation in the distribution of political support within the Greek territory, and we employ a DD specification between 1975-1989 (i.e., the years before and after the political change). This specification allows us to explore whether there are *ND* or *PASOK* specific interactions driving the allocation of *prefectural expenses*, and takes the following form (see, e.g., Jablonski, 2014; Anaxagorou et al., 2020):

$$prefectural\ expenses_{it} = \alpha_0 + \alpha_1 party_t \cdot victory\ margin_i + \beta X_{it} + \delta_i + \gamma_t + \varepsilon_{it} \quad (3)$$

where the variable $party_t$ is an indicator variable that takes the value 1 in years greater than or equal to 1982, and 0 otherwise when PASOK is in power ($PASOK_t$), whereas its values are reversed when we estimate the effect of the ND regime (ND_t). In addition, when $PASOK_t$ (ND_t) is interacted with $victory\ margin_i$, the latter takes the values of the victory margin of PASOK (ND) in the election of 1981 (1974) - $victory\ margin_{1981}$ ($victory\ margin_{1974}$).

Given that $victory\ margin_i$ is constant within prefectures and $party_t$ is constant within prefecture years, only the interaction between the two remains in the model and is captured by the parameter α_1. This methodology builds on the idea that PASOK's (ND's) political support should only affect the allocation of *prefectural expenses* during 1982-1989 (1975-1981) when the party is in power. Thus, by subtracting the effect of victory margin during the PASOK (ND) regime from their effect during the ND (PASOK) regime, α_1 provides a reasonable estimate of the extent to which each party shaped the allocation of budget to prefectures within the Greek territory. We prefer fixed measures to estimate the effect of the two parties - 1981 (1974) victory margin of PASOK (ND) - since it is less likely to be endogenous to investment trends than a voting share which changes over time (see e.g., Carruthers and Wanamaker, 2015). Of course, even fixed voting shares across prefectures are not exogenously assigned and can be correlated with potential confounders. To mitigate this issue, as in the previous section, our estimations include prefecture (δ_i) and year fixed effects (γ_t). Moreover, covariates in vector X_{it}, as discussed above, are employed to control for important time-variant factors that could still confound these estimates. Finally, ε_{it} is the error term clustered at the prefecture *i* level.

As can be seen in columns (1) and (3) of Table 2, both DD coefficients ($PASOK_t \cdot victory\ margin_{1981}$; $ND_t \cdot victory\ margin_{1974}$) are positive and statistically significant indicating a bias in the allocation of *prefectural expenses* by both parties. However, it should be noted that the estimated coefficient for the administration period of PASOK is three times higher. Moreover, as we rely on a voting share from a point in time that increases measurement error in other years, in columns (2) and (4) we opt to reduce our sample between 1978-1985, namely the last term of ND and the first term of PASOK. As it can be seen, our DD coefficients remain positive and statistically significant, suggesting for one more time political distortions in the allocation of *prefectural expenses*. In Table B6 in Appendix B, we present the robustness checks of the DD estimates: (i) we use political support variables as shares of valid votes cast; (ii) we test for outlier observations; (iii) we expand the sample between 1975-1993; (iv) we allow the effect of PASOK and ND administration to vary over two horizons during their terms in office; (v) we test the parallel trend hypothesis for the administration of PASOK. Additional discussions of these tests are provided in Section A1 in Appendix A. Overall, our empirical evidence suggests that *prefectural expenses* was a significant political instrument of the two parties to target their supporters.

[Insert Table 2, here]

4. The Municipal Level of Analysis

4.1 Institutional background

Municipalities in Greece operate under uniform fiscal rules and are 'financially dependent', as they receive significant subsidies from the central government (see Figures 5 and Figure B1 in Appendix B). Although municipalities were restricted to residual tasks, during the early 1980s local authorities were empowered to provide social services and were encouraged to promote sporting and cultural activities, urban development, and the supervision of responsibilities for local businesses and trade among others (see Hlepas, 2010).[22] This can explain, at least partly, the inflation of municipal budgets observed over time since the restoration of democracy. Despite this change, financial discretion (own tax revenue) remained limited over the same period, reflecting an increasing dependence from the funds allocated by the central government (see Tatsos, 1998).

Local elections use electoral lists and, therefore, mayoral candidates do not officially belong to any party which, in principle, ensures independence. However, mayoral candidates, as individuals, can be directly affiliated to a political party by being a member. Also, electoral lists, where the mayoral candidate is the head runner, could be endorsed or indirectly supported by a political party. Therefore, candidates at local elections do not run under the official name of any party, however voters can recognize the political identity of the candidate (see Chortareas et al., 2016). Mayoral candidates should obtain 50 percent plus one vote of the total valid votes in order to get elected. In case that no candidate is able to pass this threshold, then the first two candidates are transferred to the second electoral round where the winner is the candidate with the largest vote share.

The first local elections, after the military junta, took place in 1975, four months after the national elections of 1974. The next municipal elections were held in 1978, following the national elections of 1977. During both these terms, ND is in power. The next two local elections were held in 1982 and 1986, months after the wins of PASOK in the national elections of 1981 and 1985 respectively. The final election included in our sample took place in 1990,

[22] New duties and additional funds could not affect the majority of municipalities and communities which, due to their size, were not in position to carry out the new responsibilities. In an effort to solve this problem, the Greek Socialists forwarded in 1984 (Law 1416/1984) voluntary amalgamations of smaller communes through subsidies and other incentives. Some years later, the result was not considered satisfactory. Only 367 small municipalities/communities (less than 10 percent of the target group) had responded to the state incentives, voluntarily merging into 108 geographical units (see Hlepas, 2011).

when ND again came to power after the national election of 1989. Due to data availability issues, our sample does not include the local election of 1975, which took place immediately after the restoration of democracy.

4.2. Municipal data

The majority of mayors are, directly or indirectly, affiliated with the two main political parties that dominated the political landscape since the restoration of democracy. Our aim is to examine whether political alignment matters for the allocation of subsidies to municipalities for the period 1979-1993 – i.e., after the local elections of 1978, 1982, 1986 and 1990. To this end, our main dependent variable is the real per capita discretionary intergovernmental subsidies ($subsidies_{it}$) received by municipality i during term t.[23] Alternatively, we experiment with regular (formula-based) subsidies of the central government to municipalities, namely *non-discretionary* $subsidies_{it}$. Greece has a varying number of municipalities (for which fiscal data are available) during our sample period, starting from 267 in 1979 and ending with 304 municipalities in 1993. Figure B3 in Appendix B shows the administrative boundaries of these municipalities.

Data of local electoral results were obtained from the Ministry of Interior, Directorate of Elections. However, as already mentioned, mayoral candidates do not officially belong to any party. To trace their affiliation, we used electoral data and newspapers of that era that Professor Ilias Nicolacopoulos -the most prominent electoral analyst in Greece- shared with us from his personal collection.

During the period under consideration, we have elected mayors and mayoral candidates from all political parties of *Metapolitefsi*. It should be noted though that in some municipalities we have the so called 'independent' candidates of the two parties who were running despite the fact that other candidates had the 'official' endorsement. On average, around 88 percent of candidate mayors who obtain one of the first two places in the electoral races of our sample are affiliated with *ND* or *PASOK*, whereas 4 percent of these cases are linked with independent candidates of the two parties. The rest of our sample is composed by candidates who are affiliated with the *Communist Party of Greece* (*KKE – Komounistiko Komma Elladas*) with 6.5 percent, the *Coalition of the Left, of Movements and Ecology* (*Synaspismos*) with 2.4

[23] So, after the local election of 1978, the variable $subsidies_{it}$ is calculated as the average amount of subsidies received by municipality i between 1979-1981. We have decided to exclude the year of next municipal election from this calculation, as the party in power changed 2 times between 1978-1990 (October 1981 and October 1989) affecting the political alignment of the mayor for the average we calculate.

percent, the centrist *EK-ND* with 1.5 percent, whereas the remaining 1.5 percent belongs to independent candidates or cases that affiliation is uncertain. Overall, in our sample we have data for 1165 electoral races. To implement the RDD, we restrict the sample to municipalities with electoral races of only two candidates with the following characteristics[24]: (i) they are official or independent candidates of ND and PASOK; (ii) they belong to ND and EK-ND, as the latter party was absorbed by *PASOK* in the transition of its growing influence; (iii) the first two places belong to ND and Synaspismos candidates. The logic is that in many cases PASOK and left-wing *Synaspismos* endorsed the same candidate in municipal elections. These restrictions are of paramount importance, as alignment (or nonalignment) will have a different meaning if for instance the first two places belong to candidates of the same party (see e.g., Brollo and Nannicini, 2012; Fabre, 2014). Following these restrictions, we end up with 361 electoral races that took place in 196 municipalities around Greece. Figure B4, in Appendix B, shows the spatial allocation of these municipalities within the Greek territory. It should be noted that 104, 92, 42 and 123 of these 361 electoral races took place in 1978, 1982, 1986 and 1990 local elections, respectively. Also, in 155 of these races (42 percent of the sample) candidates of ND won, whereas in the remaining 206 races candidates of PASOK (191), Synaspismos (9) and EK-ND (6) won the mandate. Our forcing variable in the RDD is defined as the victory margin of the mayoral candidate aligned with the central government party in power in each municipality i and term t (VM_{it}). Consequently, the (political) alignment variable (A_{it}) equals to 1 when this measure is positive and zero when it is negative.

Finally, we control for some variables that are likely to play a role in the allocation of subsidies. In particular, we use the census of 1981 to reproduce the set of covariates, X_i, namely *population*, *electricity*, *agriculture*, and *illiterates*, as employed in the prefectural analysis. In addition, we use a second set of covariates (Z_{it}) to control for political characteristics. To this end, we use the variable *victory margin* defined as the difference of valid votes between the incumbent and opposition parties in the last national election. Then, we calculate the share of absent voters from the electoral process (*abstention*) defined as the share of voters to the total number of registered voters. We also include two variables that capture mayoral characteristics: (i) the number of times a candidate has been elected as mayor since the drop of the military regime (*experience*); (ii) a dummy variable that takes the value 1 in cases the winner of the last mayoral election runs as candidate and 0 otherwise (*candidate*). Explicit definitions,

[24] When including races with more than two candidates we find evidence of non-random sorting around the cut-off.

descriptive statistics and sources of the variables employed throughout the municipal analysis are provided in Table B2 in Appendix B.

In Table B3, in Appendix B, we summarize the main variables of the analysis comparing the sample means of the municipalities that have a mayor who is politically aligned with the government (columns 1-2) and the municipalities that have a mayor who is not aligned with the government (columns 3-4). We also report the p-value of the corresponding t-test for equality of these means. As it can be seen, even a simple comparison of means indicates a statistically significant positive difference of the average (discretionary) *subsidies* received by the municipalities with a politically aligned mayor. On the other hand, *non-discretionary subsidies* are at the same level for aligned and non-aligned municipalities.

4.3. Identification: Regression discontinuity design

Estimating the impact of political alignment on the amount of subsidies can be affected by endogeneity issues, such as socio-economic factors influencing both dimensions. To deal with this issue, we adapt the RDD in close electoral races pioneered by Lee (2008). In particular, Lee (2008) uses the US House elections as an empirical illustration, showing that winners in close electoral races exhibit quasi-random variation that allows for the identification of causal effects of political parties.[25]

Following this methodology, we can compare the municipalities for which the aligned candidate barely won to municipalities for which the candidate barely lost. To do so, we use the variable VM_{it} defined above, where at the threshold cut-off point ($VM_{it} = 0$) the political alignment (A_{it}) *sharply* increases from 0 to 1. Then, we employ a spline polynomial specification which consists of running a P^{th}-order polynomial function in VM_{it} on either side of the threshold $VM_{it} = 0$, as follows:

$$subsidies_{it} = \sum_{k=0}^{p} \alpha_k VM_{it}^k + A_{it} \sum_{k=0}^{p} \beta_k VM_{it}^k + \gamma X_i + \delta Z_{it} + m_t + \varepsilon_{it} \qquad (4)$$

where $subsidies_{it}$ is the amount of *subsidies* received by municipality i during term t (i.e., 1979-81, 1983-85, 1987-89, and 1991-93); VM_{it}^k is the margin of victory of the mayor of municipality *i* in the last local election during the year *t* (i.e., 1978, 1982, 1986, and 1990); A_{it} takes the value 1 when the mayor is aligned with the central government and 0 otherwise; X_i

[25] See Brollo and Nannicini (2012) for a more detailed discussion. Also, an increasing number of scholars employ RDD in similar context; see, among others, Ferreira and Gyourko (2009), Meyersson (2014), Beland (2015), Brollo and Troiano (2016), Fiva and Halse (2016), Lara and Toro (2019).

(Z_{it}) is the set of socio-economic (political) characteristics described above; and m_t are mayoral term-fixed effects. Also, standard errors are clustered at the municipal level. In this setting, the estimated coefficient, $\hat{\beta}_0$, identifies the average treatment effect at the zero threshold. Therefore, a political bias of the central government towards the politically aligned mayoral candidate is indicated when $\hat{\beta}_0 > 0$.

Based on the generic specification, described in Equation (4), we employ various specifications. In particular, we adopt a linear regression model with $p = 1$ as well as second, third and fourth-order polynomials. We consider these models, firstly, without additional covariates and, secondly, including the set of covariates described in the previous section. As an alternative, we apply a local linear regression which restricts the sample to municipalities in the interval $VM_{it} \in [-h, +h]$ and estimates the model:

$$subsidies_{it} = \alpha_0 + \alpha_1 VM_{it} + \beta_0 A_{it} + \beta_1 A_{it} \cdot VM_{it} + \gamma X_i + \delta Z_{it} + m_t + \varepsilon_{it} \qquad (5)$$

where the optimal bandwidth h is computed as in Calonico et al. (2014). As above, the coefficient of interest is $\hat{\beta}_0$.

Before we move to our main results and robustness checks, we start with two validity tests. First, we examine whether the density of our running variable, VM_{it}, is continuous at the discontinuity threshold (i.e., $VM_{it} = 0$). To check this, we follow the McCrary (2008) methodology that tests the null hypothesis of continuity employing kernel local linear regressions of the logarithm of the density separately on both sides of the cut-off. As can be seen in Figure 6, we cannot reject continuity in the running variable at the win/loss threshold, indicating that ruling party mayoral candidates do not have the ability to selectively push themselves across the win margin. Second, we have to ensure that municipalities just below and above the cut-off are similar. To this end, we examine whether there is no discontinuity in our covariates between municipalities narrowly won and narrowly lost by ruling party candidates. Table 3 presents the results, showing that all variables are balanced across the cut-off. These results are corroborated by visual inspection in Figure 7. Consistent with Table 3, there is no noticeable difference in our covariates across the cut-off.

[Insert Table 3, here]

[Insert Figures 6 & 7, here]

4.4. Baseline Results

In this section, we describe our RDD results as reported in Table 4. Our baseline estimates include simple OLS regressions (columns 1-2), RDD regressions described in Equation (4) using a third order spline polynomial specification (columns 3-4), and local linear regressions described in Equation (5) with optimal bandwidth calculated according to Calonico et al. (2014) (columns 5-6). For each model, we report a specification with no covariates (columns 1, 3, 5) and a specification that includes the full set of our controls (columns 2, 4, 6). Across all specifications, we have positive and statistically significant estimates, indicating that mayors politically aligned with the government receive larger amounts of subsidies. In particular, according to the OLS, spline polynomial, and local linear regressions with the full set of covariates (columns 2, 4, 6) mayors affiliated with the central government attract about 82, 200 and 140 percent, respectively, more subsidies than their non-affiliated counterparts. These results are confirmed by visual inspection of Figure 8, which shows that the subsidies to aligned municipalities increase significantly for positive values of victory margin around the cut-off. At the same time, we have evidence that the central government gives more money to its strongholds (where VM_{it} is large), although we cannot discern with certainty if political motivations (i.e., core voter strategy as predicted by Cox and McCubbins, 1986) shape this result.

[Insert Table 4, here]

[Insert Figure 8, here]

4.5 Robustness Checks

Our first robustness check in Table 5 is to experiment with additional specifications. In particular, the first four columns present results of polynomial estimations for all orders between 1 and 4 (each column corresponds to a specific order). Moreover, columns (5)-(7) show the results of local linear regressions for the optimal bandwidth defined by Calonico et al. (2014), half, and quarter of it. Due to space limitations, we have omitted the corresponding specifications that exclude the covariates since the results are qualitatively similar. As before, we see that our overall conclusion is robust to the polynomial order as well as the bandwidth choice.

[Insert Table 5, here]

Second, we re-run specifications of Table 4 using *non-discretionary subsidies* as our dependent variable. Since these subsidies are allocated in a fair and transparent way, we do not expect to find evidence of political bias. Indeed, we see in Table 6 that the coefficient for the political alignment variable, A_{it}, is not statistically significant in any specification. Also, visual inspection of Figure B5 does not indicate political distortions. This confirms our main finding that, when the central government has full discretion, political bias affects the allocation of funds.

[Insert Table 6, here]

In Tables B7, B8 and Figure B6 in Appendix B, we present two additional robustness checks of the RDD estimates: (i) we investigate whether political alignment has a differentiated effect on subsidies along five dimensions (e.g., population size of municipality); (ii) we perform a placebo test using alternative cut-off points. Additional discussions of these tests are provided in Section A2 in Appendix A. Overall, our findings about the effect of political alignment on *subsidies* remain unaffected.

5. Conclusions

The evolution of the Greek economy during the post-war period presents a clear-cut policy regime change and a radical downturn in macroeconomic performance during *Metapolitefsi*. Several scholars suggest that the democratic political system established after 1974 failed to create commitment and coordination mechanisms that would ensure economic growth. In contrast, it produced an economic environment that discouraged private investment through increased uncertainty, while it prioritized politically motivated redistributive policies (see Kostis, 2019; Meghir et al., 2017). In particular, after 1974, social groups that were at the margin of society and politics in the pre-*Metapolitefsi* era (e.g., small business owners, and small farmers) gained significant political power, whereas elected governments were striving to satisfy their 'fiscal' demands.

In this new era, the parties that emerged diverged substantially from their predecessors in structure, functioning and program. This is because old-style parties of notables that were lacking autonomous organization and mass memberships could not survive any longer. To this end, both dominant political parties (i.e., ND and PASOK) put significant efforts to organize a

centralized party machine in order to mobilize voters through mass memberships. One significant fiscal tool to develop and support their party machine was intergovernmental transfers to prefectures and municipalities that increased markedly between 1974-1993 contributing to the fiscal derailment of the Greek state. Building on a novel regional dataset and employing DD and RDD estimation techniques, our analysis provides strong evidence that governing parties diverted significant amounts of intergovernmental transfers towards their political strongholds and politically aligned mayors. In the transformed political environment, both appointed prefects and mayors became major components of the party machine and were functioned as arms of the governing party "at the level of the town and the village". Overall, our findings support the notion that political distortions during the first two decades of *Metapolitefsi* are a major contributing factor that Greece is entangled in its current malaise.

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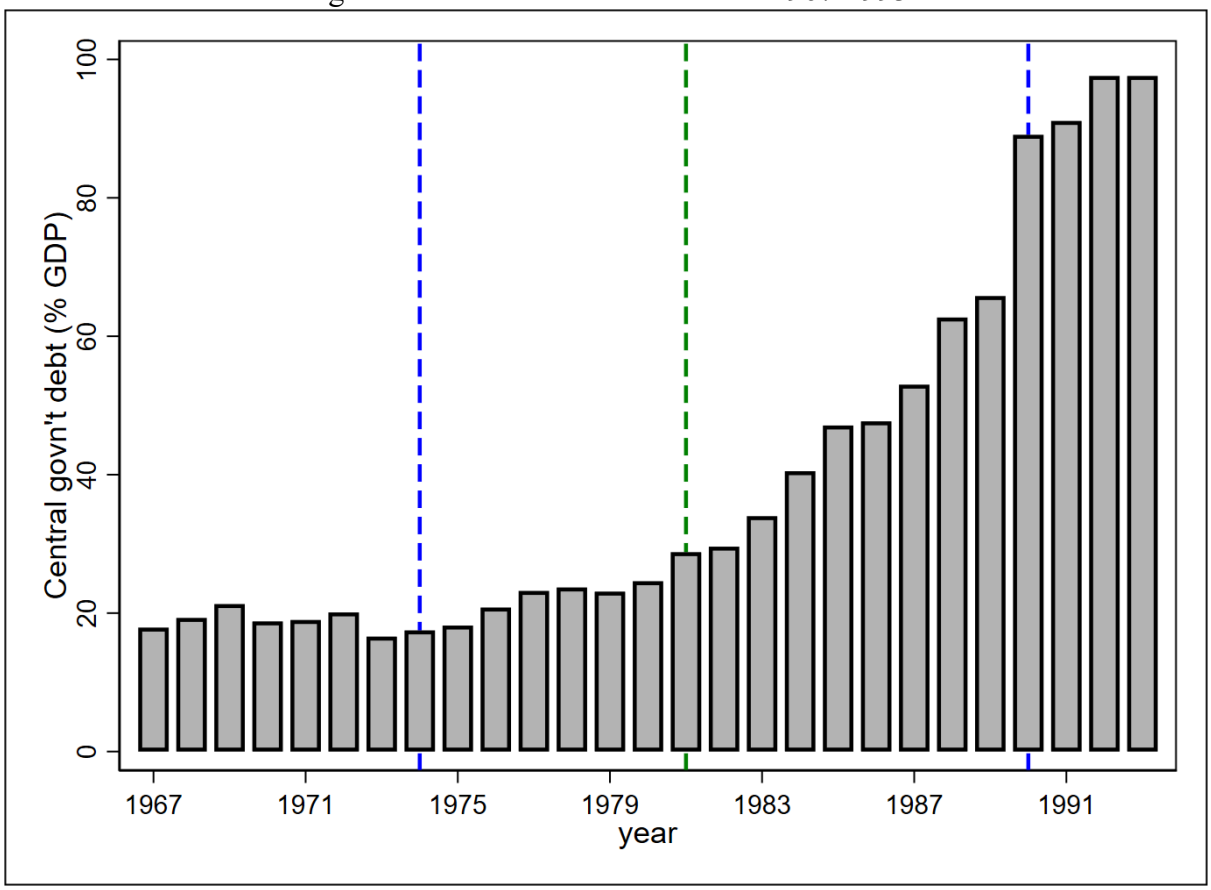
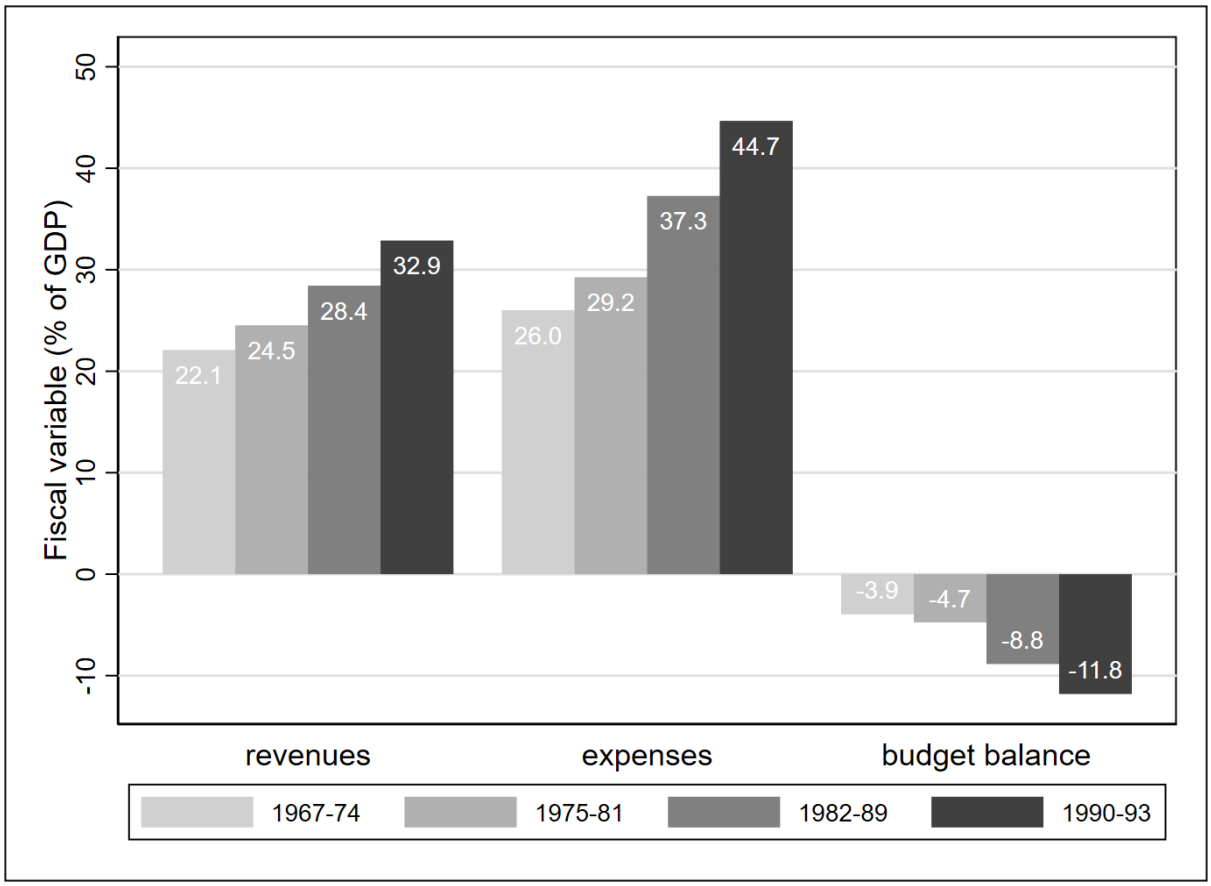
Figure 1. Government debt between 1967-1993



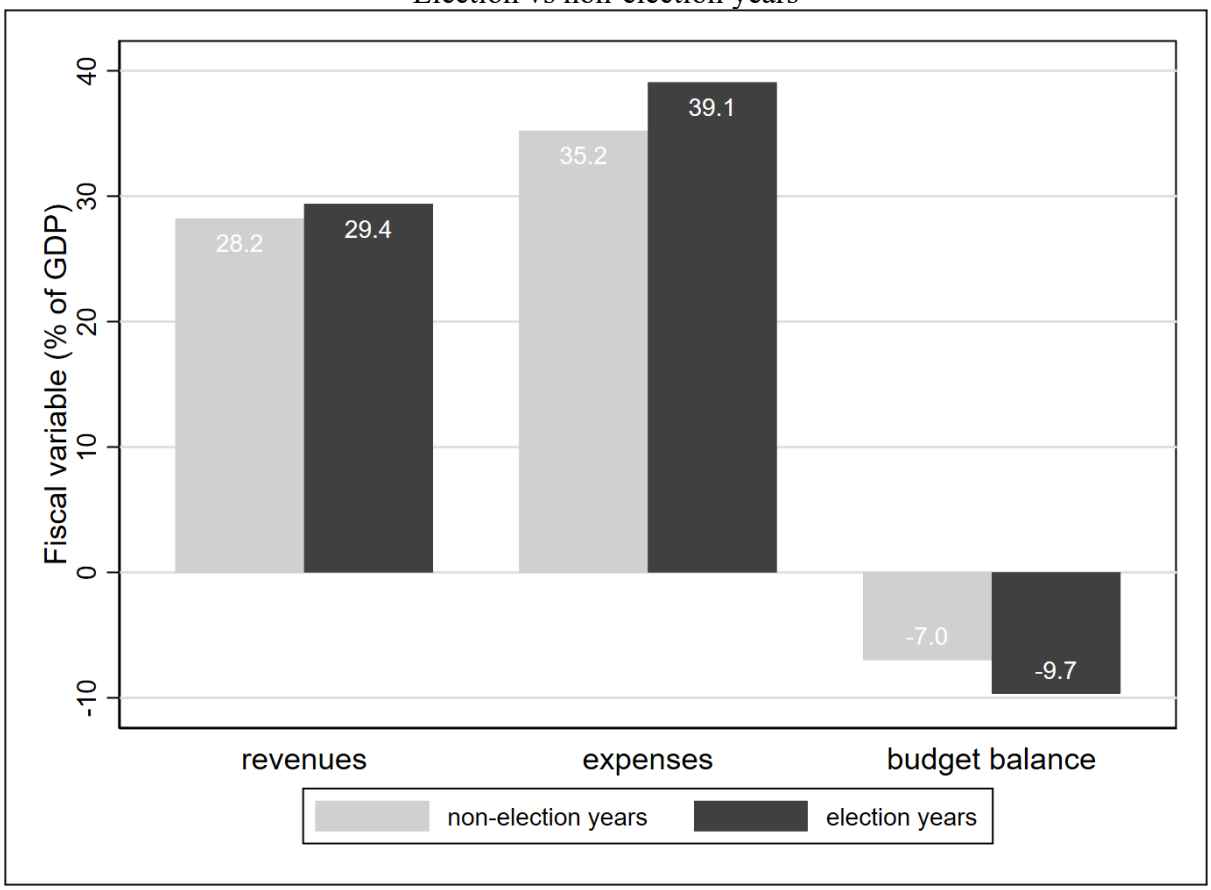
Notes: The first blue dashed line indicates the year that democracy is restored and ND came to power up to 1981 (i.e., 1974-81). The green dashed line indicates the year that the socialist party PASOK came to power after the election of 1981 up to 1989. The second blue dashed line indicates the win of ND in the elections of 1990. Government debt data are obtained by Reinhart and Rogoff (2011).

Figure 2. Government Primary Expenditure, Revenues and Primary Balance (%GDP) over time.



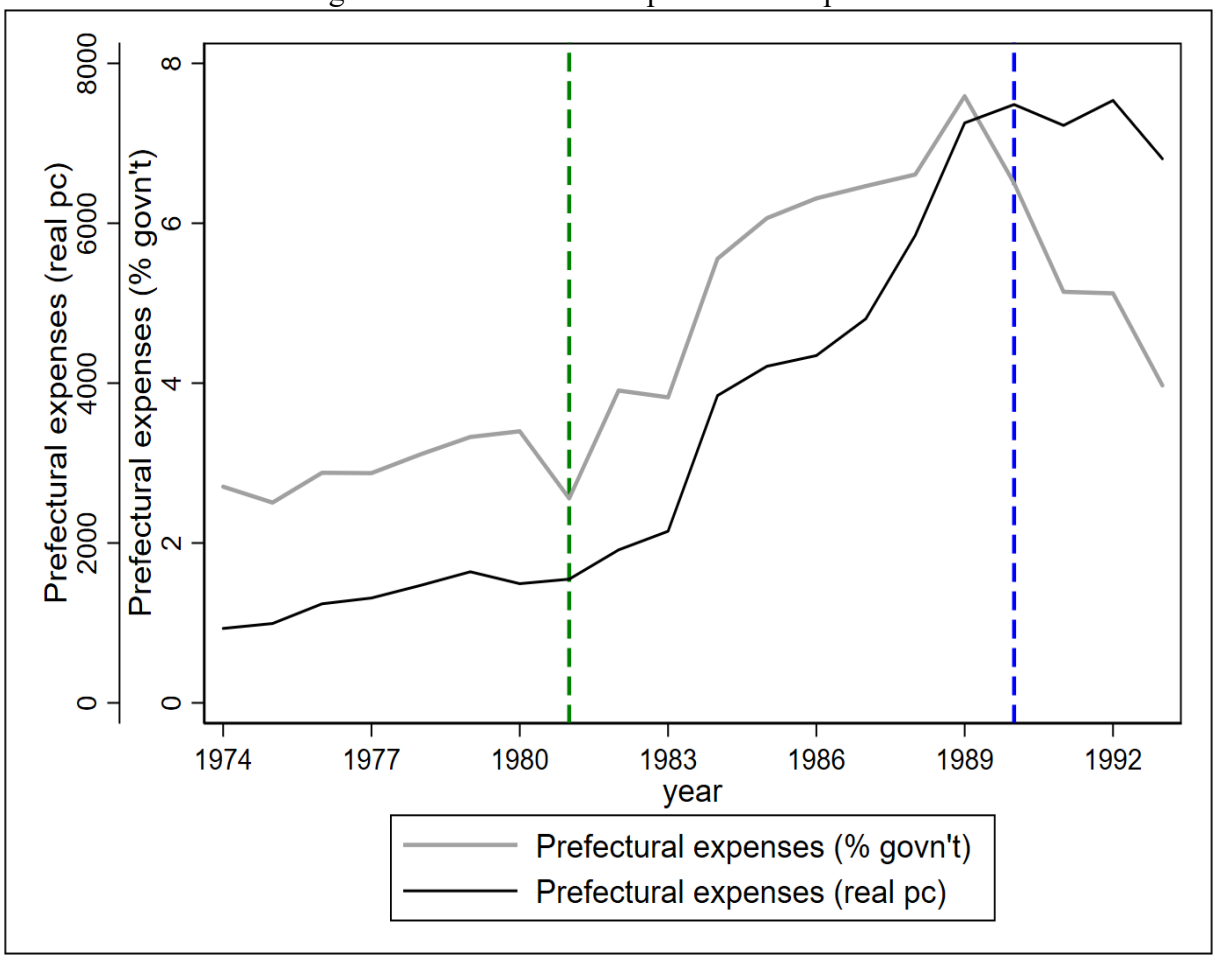
Notes: Fiscal data are obtained by the Historical Public Finance Database (Mauro et al., 2015)

Figure 3. Government Primary Expenditure, Revenues and Primary Balance (%GDP): Election vs non-election years



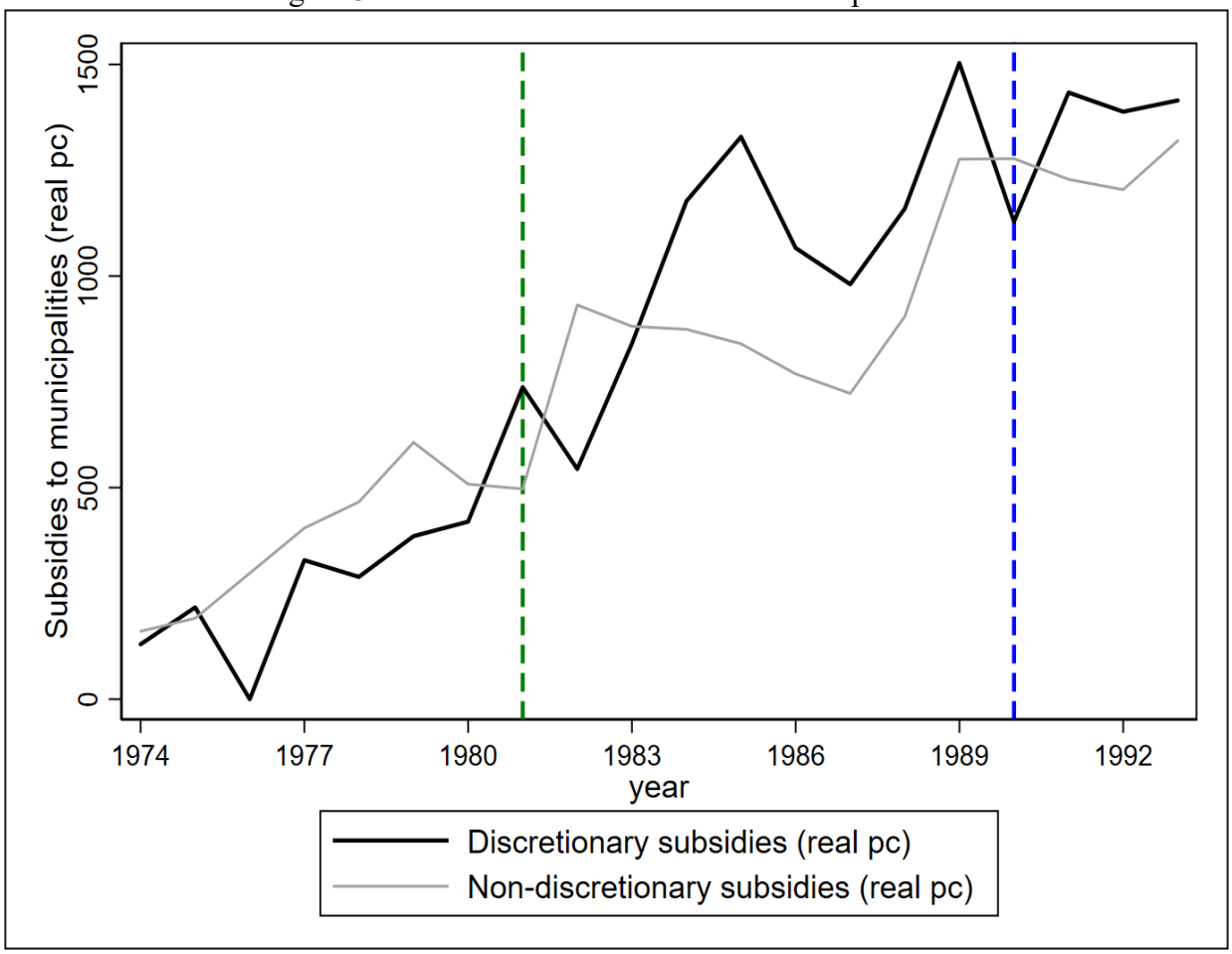
Notes: Fiscal data are obtained by the Historical Public Finance Database (Mauro et al., 2015)

Figure 4. The evolution of prefectural expenses



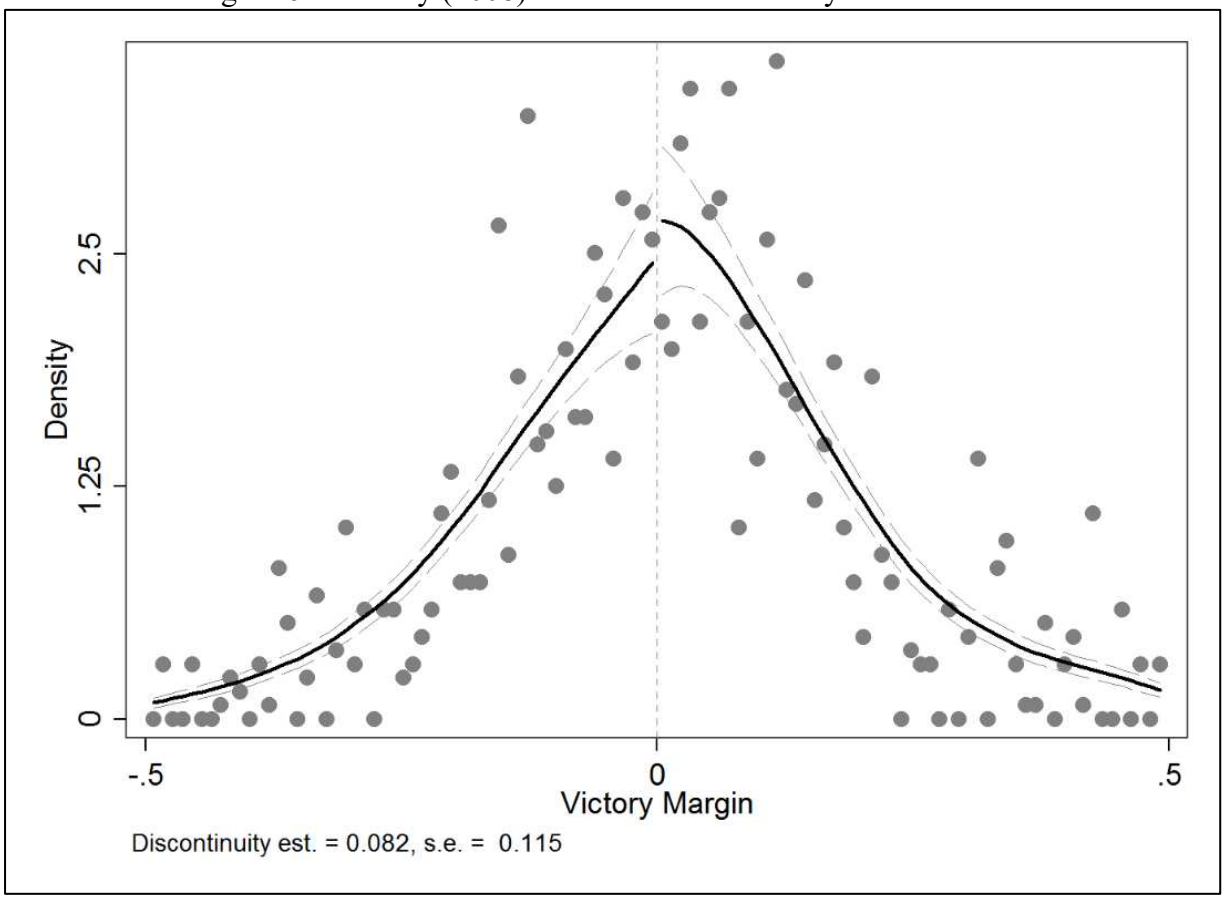
Notes: The green dashed line indicates the year that the socialist party PASOK came to power after the election of 1981 up to 1989. The blue dashed line indicates the year that ND came back to power in 1990. Fiscal data are obtained by the annual volumes of the final fiscal accounts of the Greek state available at the Bank of Greece (BoG).

Figure 5. The evolution of subsidies to municipalities



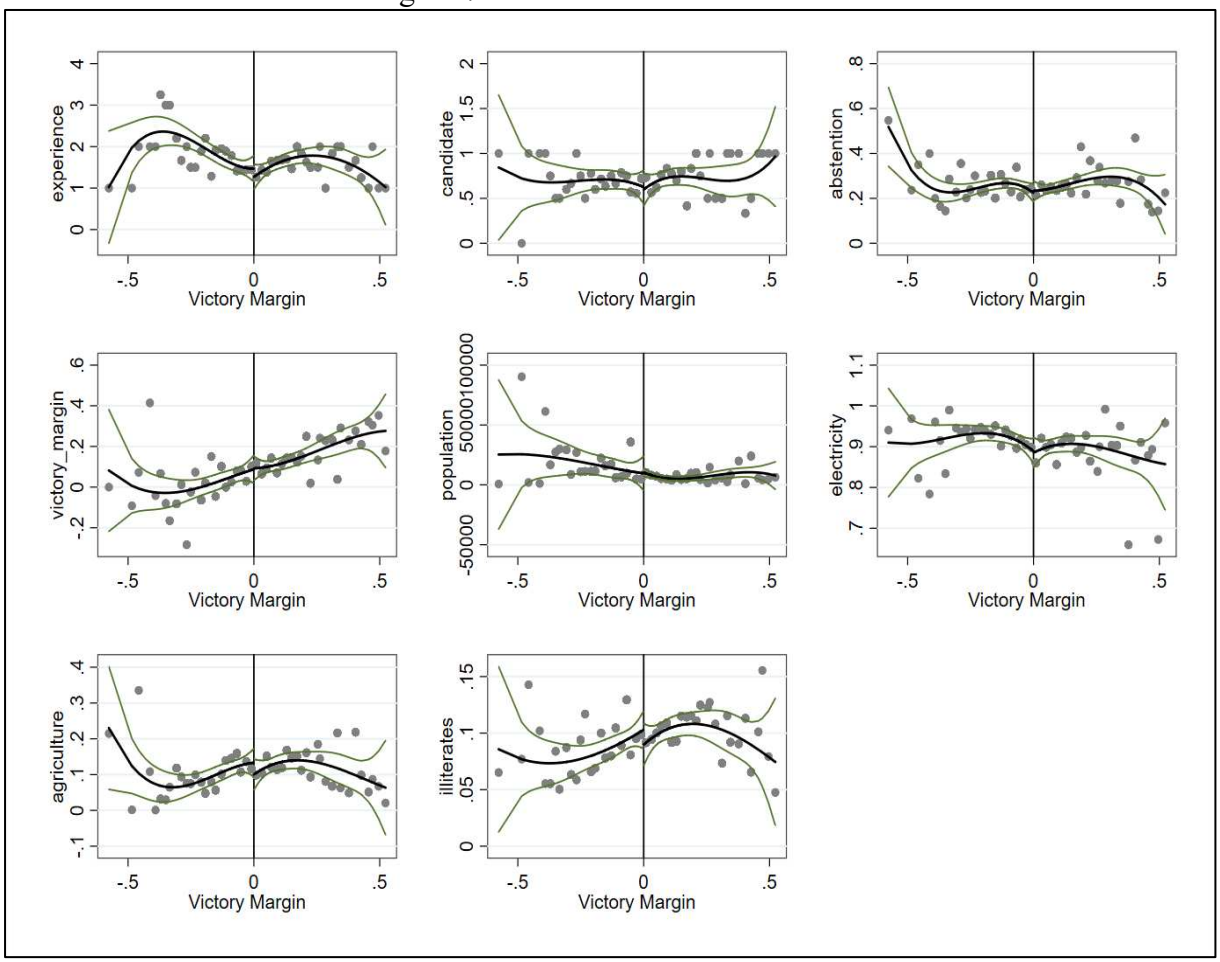
Notes: The green dashed line indicates the year that the socialist party PASOK came to power after the election of 1981 up to 1989. The blue dashed line indicates the year that ND came back to power in 1990. Fiscal data are obtained by the annual volumes of the final fiscal accounts of the Greek municipalities available in the Digital Library of the Hellenic Statistical Authority (ELSTAT).

Figure 6. McCrary (2008) test for no discontinuity at the cut-off



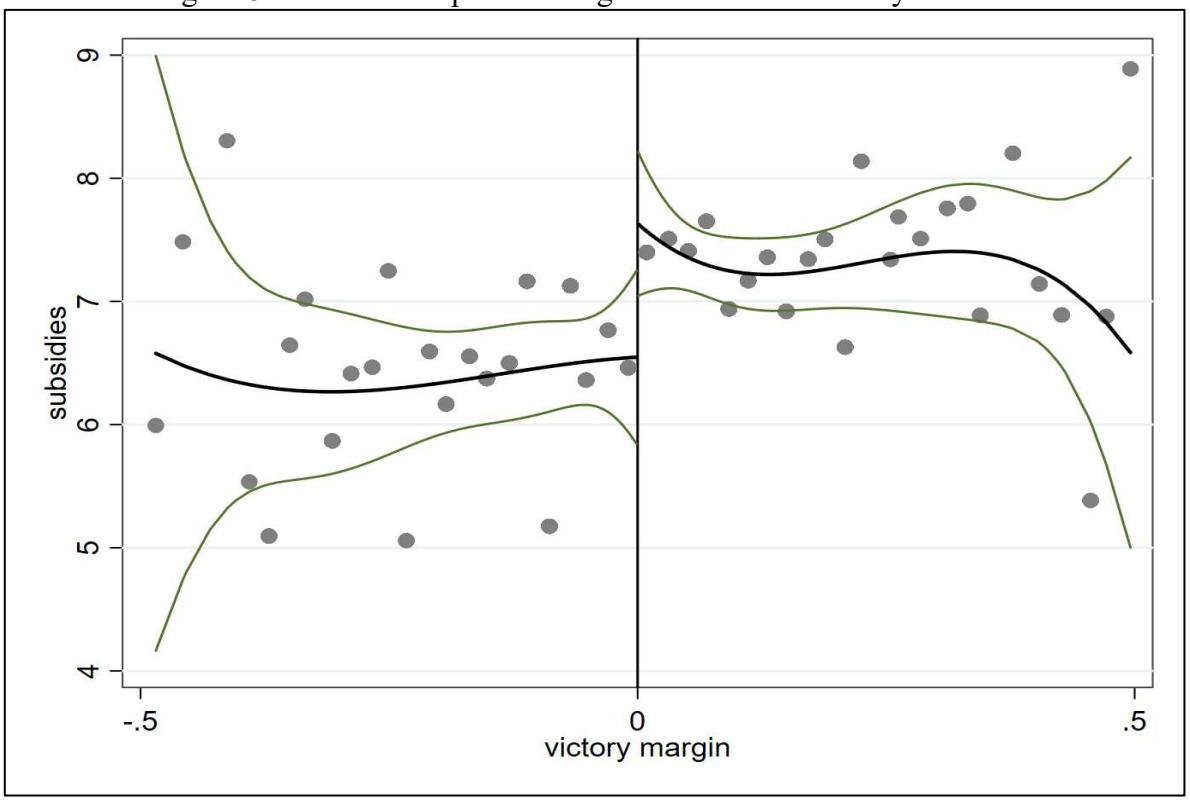
Notes: This figure shows the estimated density of the victory margin of aligned mayors in municipal elections and the test for no discontinuity at the cut-off. The point estimate for the discontinuity is 0.082, with a standard error of 0.115.

Figure 7. Balanced covariate checks



Notes: The black line is a split third-order polynomial in victory margin of the aligned mayor candidate, fitted separately on each side of the victory margin thresholds at zero – i.e., $MV_{it} > 0$ ($MV_{it} < 0$) when the winner candidate in the municipality i and mandate t is aligned (non-aligned) with the central government. The grey lines are the 95% confidence interval of the polynomial. Scatter points are averaged over 2% intervals.

Figure 8. The effect of political alignment on discretionary subsidies



Notes: The black line is a split third-order polynomial in victory margin of the aligned mayor candidate, fitted separately on each side of the victory margin thresholds at zero – i.e., $MV_{it} > 0$ ($MV_{it} < 0$) when the winner candidate in the municipality i and mandate t is aligned (non-aligned) with the central government. The grey lines are the 95% confidence interval of the polynomial. Scatter points are averaged over 2% intervals.

Table 1. Political support and the allocation of prefectural expenses around elections (Fixed-Effects)

election variable	*No interaction*	*National election year*	*National election and pre-election years*
		(1)	(2)
victory margin	0.148**	0.138*	0.089
	(0.073)	(0.070)	(0.240)
*victory margin*election*		0.034	0.103*
		(0.572)	(0.084)
Observations	988	988	988
R^2	0.944	0.944	0.944

Notes: The table reports OLS estimates of Equations (1) and (2). Prefecture and year fixed effects are included. The dependent variable is the natural logarithm of the real per capita *prefectural expenses*. All models control for the *population*, *electricity*, *agriculture*, and *illiterates*, but these coefficients are not reported to save space. Robust standard errors, clustered by prefecture, are reported in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table 2. Political support and the allocation of prefectural expenses (DD)

party in power	*PASOK*		*ND*	
victory margin	*victory margin*$_{1981}$		*victory margin*$_{1974}$	
sample	1975-89	1978-85	1975-89	1978-85
	(1)	(2)	(3)	(4)
*party*victory margin*	0.629**	0.454**	0.232*	0.185**
	(0.261)	(0.184)	(0.117)	(0.090)
Observations	780	416	780	416
R^2	0.935	0.880	0.933	0.878

Notes: The table reports DD coefficient estimates of Equation (3). Prefecture and year fixed effects are included. The dependent variable is the natural logarithm of the real per capita *prefectural expenses*. All models control for the *population*, *electricity*, *agriculture*, and *illiterates*, but these coefficients are not reported to save space. Robust standard errors, clustered by prefecture, are reported in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table 3. Discontinuities of main covariates in close races (RDD)

	experience	***candidate***	***abstention***	***victory margin***	***population***	***electricity***	***agriculture***	***illiterates***
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
alignment	-0.212	-0.027	0.010	0.005	758.879	-0.003	-0.034	-0.014
	(0.183)	(0.147)	(0.033)	(0.046)	(6200.854)	(0.020)	(0.028)	(0.013)
Observations	361	361	361	361	361	361	361	361
R^2	0.091	0.008	0.046	0.140	0.036	0.031	0.041	0.046

Notes: Column titles refer to the dependent variable. This table shows RDD estimates of Equation (4) using a third order spline polynomial specification. Robust standard errors clustered at the municipality level are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table 4. Baseline Results using OLS, spline polynomial and LLR

specification:	*OLS*		*Spline polynomial*		*LLR*	
covariates:	*No*	*Yes*	*No*	*Yes*	*No*	*Yes*
	(1)	(2)	(3)	(4)	(5)	(6)
alignment	0.861***	0.601***	1.132***	1.104***	0.948**	0.878***
	(0.144)	(0.132)	(0.405)	(0.333)	(0.373)	(0.314)
Observations	361	361	361	361	207	210
R^2	0.071	0.361	0.081	0.369	0.076	0.347
Optimal h					0.129	0.130

Notes: The dependent variable is the natural logarithm of the real per capita (discretionary) *subsidies*. This table shows results for OLS, RDD third order spline polynomial and local linear regressions with optimal bandwidth calculated as in Calonico et al. (2014). RDD specifications with split polynomial and local linear regression following Equations (4) and (5), respectively. h denotes the interval of our running variable. For instance, h=0.129 represents races where margin of victory is between -12.9% and 12.9%. Columns (2), (4) and (6) control for the *experience*, *candidate*, *abstention*, *victory margin*, *population*, *electricity*, *agriculture*, *illiterates*, and term fixed effects but these coefficients are not reported to save space. Robust standard errors, clustered at the municipality level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table 5. Alternative RDD specifications

specification	*Spline polynomial*				*LLR*		
polynomial	*p(1)*	*p(2)*	*p(3)*	*p(4)*	*p(1)*	*p(1)*	*p(1)*
bandwidth	*Global*	*Global*	*Global*	*Global*	$\hat{h}$	$\hat{h}/2$	$\hat{h}/4$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
alignment	0.763***	0.726***	1.104***	1.057**	0.878***	1.202***	1.372*
	(0.195)	(0.253)	(0.333)	(0.429)	(0.314)	(0.430)	(0.737)
Observations	361	361	361	361	210	115	56
R^2	0.363	0.364	0.369	0.370	0.347	0.436	0.598
Optimal h					0.130	0.065	0.032

Notes: The dependent variable is the natural logarithm of the real per capita (discretionary) *subsidies*. Columns (1)-(4) show results for first, second, third and fourth order spline polynomials as described in Equation (4). Column (5) shows local linear regressions with optimal bandwidth calculated as in Calonico et al. (2014). h denotes the interval of our running variable. For instance, h=0.13 represents races where margin of victory is between −13.0% and 13.0%. Columns (6)-(7) show estimates for half and quarter of the optimal bandwidth defined by Calonico et al. (2014). All models control for the *experience*, *candidate*, *abstention*, *victory margin*, *population*, *electricity*, *agriculture*, and *illiterates*, and term fixed effects but these coefficients are not reported to save space. Robust standard errors, clustered at the municipality level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table 6. The effect of alignment on non-discretionary subsidies

specification	*OLS*		*Spline polynomial*		*LLR*	
covariates	*No*	*Yes*	*No*	*Yes*	*No*	*Yes*
	(1)	(2)	(3)	(4)	(5)	(6)
alignment	0.034	-0.001	0.027	-0.012	0.069	0.014
	(0.047)	(0.030)	(0.135)	(0.079)	(0.114)	(0.099)
Observations	361	361	361	361	241	146
R^2	0.001	0.657	0.017	0.663	0.020	0.673
Optimal h					0.154	0.088

Notes: The dependent variable is the natural logarithm of the real per capita *non-discretionary subsidies*. Columns (1)-(6) follow the structure of Table 4. Robust standard errors, clustered at the municipality level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Appendix A

A1. Robustness checks of the DD specification

In Table B6, we present modifications of the estimates of Table 2 in order to check further the consistency of our results. First, we express the political support variable *victory margin* as percentage of valid votes cast instead of the voting eligible population that was reported in the results of Table 2. As can be seen in columns (1) and (6) of Table B6, both DD coefficients for the two parties in power remain positive and statistically significant at the 5% level. Second, in columns (2) and (7) we rerun estimates of Table 3 after removing observations with standardized residuals above 1.96 or below -1.96. Our new estimates indicate that our results are not driven by outlier observations. Third, in columns (3) and (8) we expand our sample between 1975-1993 as in Table 1. The reason we decided to limit our sample, between 1975-1989, in the DD specification is to focus on the terms of ND and PASOK just before and after the political change of 1981. However, as it can be seen, both DD coefficients in the expanded sample remain positive and statistically significant. Fourth, we allow the effect of PASOK and ND administration to vary over two horizons during their terms in office as follows:

$$prefectural\ expenses_{it} = \alpha_0 + \alpha_1 party_{term\,1} \cdot victory\ margin_i + \alpha_2 party_{term\,2} \cdot victory\ margin_i + \beta X_{it} + \delta_i + \gamma_t + \varepsilon_{it} \quad \text{(A1)}$$

where variable $party_{term\,1}$ is an indicator variable that takes the value of 1 during the first terms of PASOK and ND in office (1982-1985 and 1975-1977, respectively), and 0 otherwise. In the same way, variable $party_{term\,2}$ refers to the second term of the two parties in office (1986-1989 and 1978-1981 for PASOK and ND respectively). Moreover, as in Equation (3), the variable $victory\ margin_i$ takes values of the victory margin of PASOK (ND) in the election of 1981 (1974). As can be seen in column (4), both DD coefficients are positive and statistically significant, though it should be noted that the second term of PASOK (1986-1989) seems to produce a stronger effect on *prefectural expenses*. In column (9), focusing on ND administration, both coefficients are of the same level, though the effect of the first term (1975-1977) is marginally insignificant. Finally, it remains possible that heterogeneous trends are present and induced changes in *prefectural expenses* in prefectures which voted more intensively for PASOK - even before 1982 when the socialist party came to power. To examine this possibility, we restrict our sample prior to 1982 and assess the importance of our key

independent variable in determining trends in *prefectural expenses*. Specifically, we modify Equation (3) and, focusing on the fiscal years 1975-1981, we estimate:

$$prefectural\ transfers_{it} = \alpha_0 + \alpha_1 trend_t + \alpha_2 trend_t \cdot victory\ margin_{1981} + \beta X_{it} + \delta_i + \gamma_t + \varepsilon_{it} \quad \text{(A2)}$$

The main aim is to test whether high *victory margin*$_{1981}$ prefectures had different trends before 1982 (i.e., $\alpha_2 \neq 0$). The results reported in column (5) show an upward trend in *prefectural expenses*, but more importantly no evidence of a differential trend related to the size of *victory margin*$_{1981}$. We do not test the hypothesis of pre-existing trends in the case of ND since its terms are ahead of PASOK's administration.

A2. Robustness checks of the RDD specification

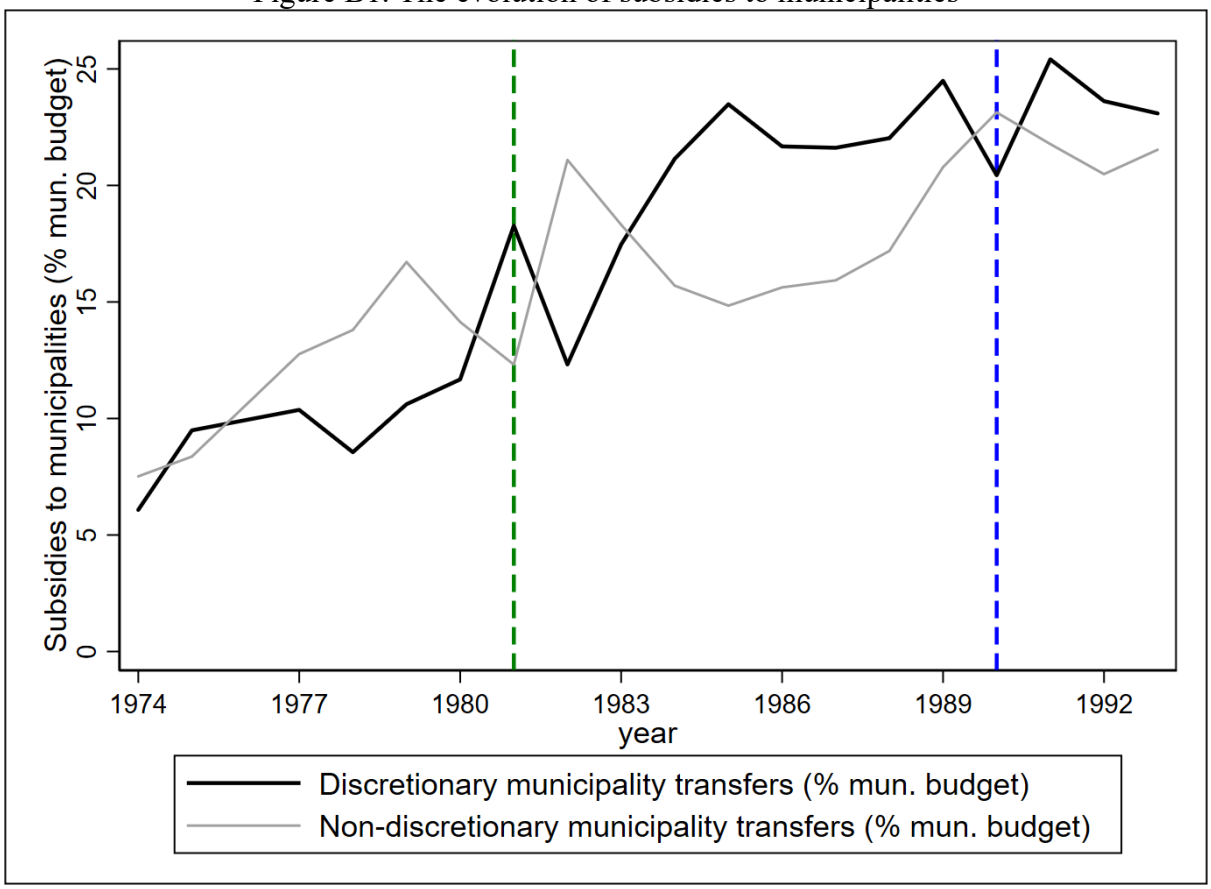
In Table B7, we investigate the potential heterogeneity of the impact of political alignment on discretionary subsidies. To do so, we conduct an RDD analysis allowing the discontinuity to be different along five dimensions. That is, we estimate Equation (4) augmented with an additional term and the interaction between the political alignment variable and this term for five different cases. First, we distinguish the periods that ND (1978-1981 and 1990-1993) and PASOK (1982-1985 and 1986-1989) were in power. It would be interesting to investigate whether one of the two parties drives the political alignment effect. To this end, we use the variable *ND* that takes the value 1 when ND is in power and 0 otherwise. Second, we examine if the municipality size is an important factor which affects the way governments allocate *subsidies*. If larger municipalities receive higher amounts of *subsidies*, it could be argued that this may not be the effect of political bias. To perform this test, we construct the variable *population above the median* that takes the value 1 if a municipality has population above 4,000 citizens, and 0 otherwise. Third, we use the variable *candidate* to distinguish cases that the mayor runs for re-election or not. It would be interesting to observe whether the central government differentiates its behaviour along this dimension. Fourth, we focus on the issue of political strongholds. We define *political strongholds* as municipalities that voted in favour of the political party in power with a margin of victory greater than 20 percent (upper quarter of the distribution) in the last national elections. In that way, we can check if the political alignment matters, but only in the political strongholds of the incumbent. Fifth, we check whether our result is driven by the level of voter turnout. In other words, we examine if higher voter turnout affects the behavior of the central government to allocate subsidies in aligned

mayors at the threshold. To do so, we construct the variable *turnout above median* that takes the value 1 for municipalities with abstention rate below 23.84 percent, and 0 otherwise. As can be seen in columns (1)-(5) of Table B7, our results on political alignment do not seem to be affected significantly by a specific political party, municipality size, lame ducks, political strongholds and high turnout levels.

Our last robustness check is to perform a placebo test following Imbens and Lemieux (2008). In particular, we estimate the political alignment effect at false thresholds where no effect should exist. To this end, we use as alternative cut-off points the median on the left and right side of zero threshold. The values which correspond to these alternative thresholds are -0.116 and 0.112 respectively. Table B8 presents the results of a third-order spline polynomial for the new threshold on the left (columns 1-2), the true threshold (columns 3-4), and the new threshold on the right (columns 5-6). As it can be seen, our empirical evidence suggests that discontinuities do not exist at these alternative cut-off points. This indicates that our results are valid due to a causal relationship and not by pure randomness. Figure B8 provides a visual illustration comparing results at the true and false cut-off points.

Appendix B. Additional Figures and Tables

Figure B1. The evolution of subsidies to municipalities



Notes: The green dashed line indicates the year that the socialist party PASOK came to power after the election of 1981 up to 1989. The blue dashed line indicates the year that ND came back to power in 1990. Fiscal data are obtained by the annual volumes of the final fiscal accounts of the Greek municipalities available in the Digital Library of the Hellenic Statistical Authority (ELSTAT).

Figure B2. Political influence of ND and PASOK at the prefecture level (NUTS-3)

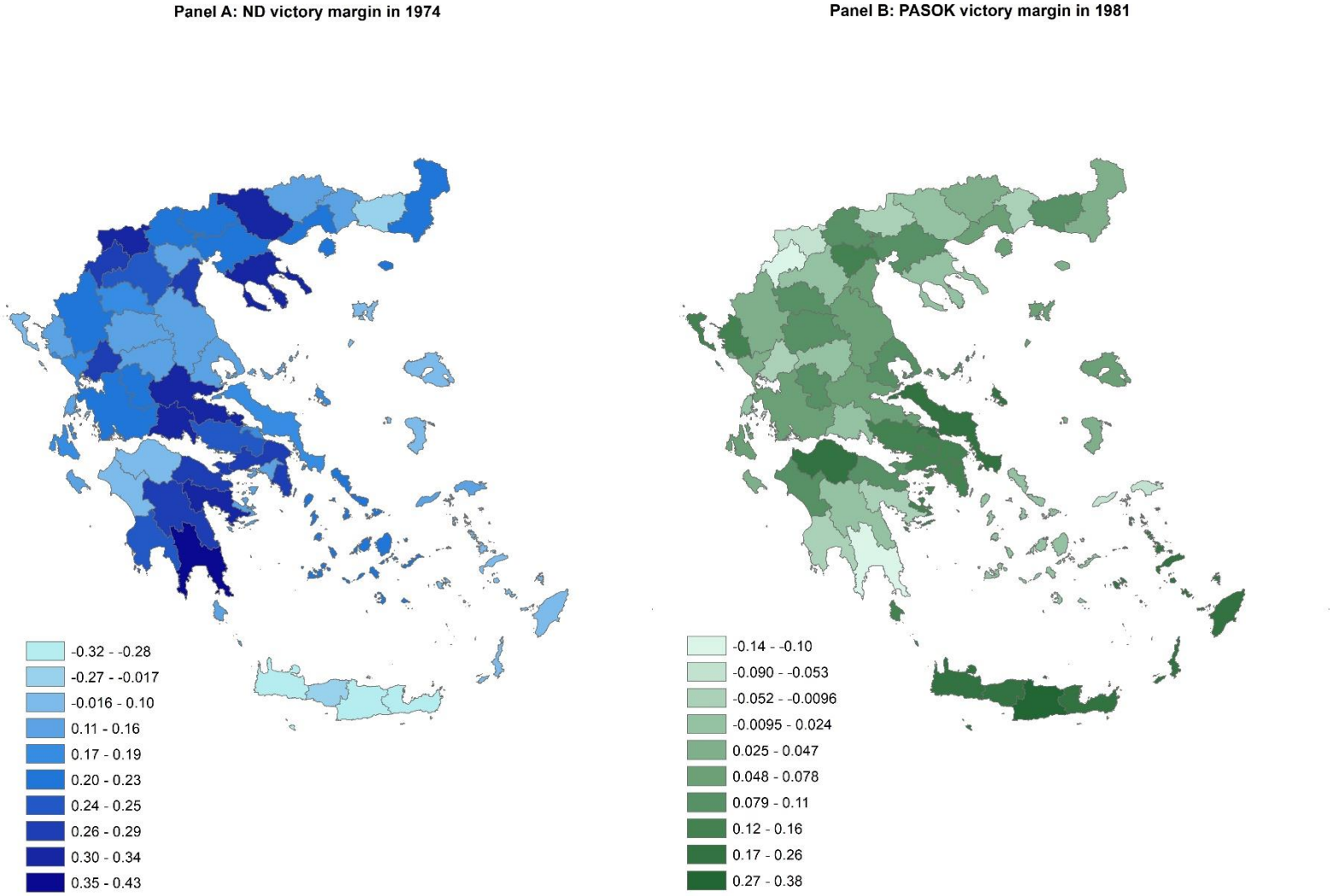
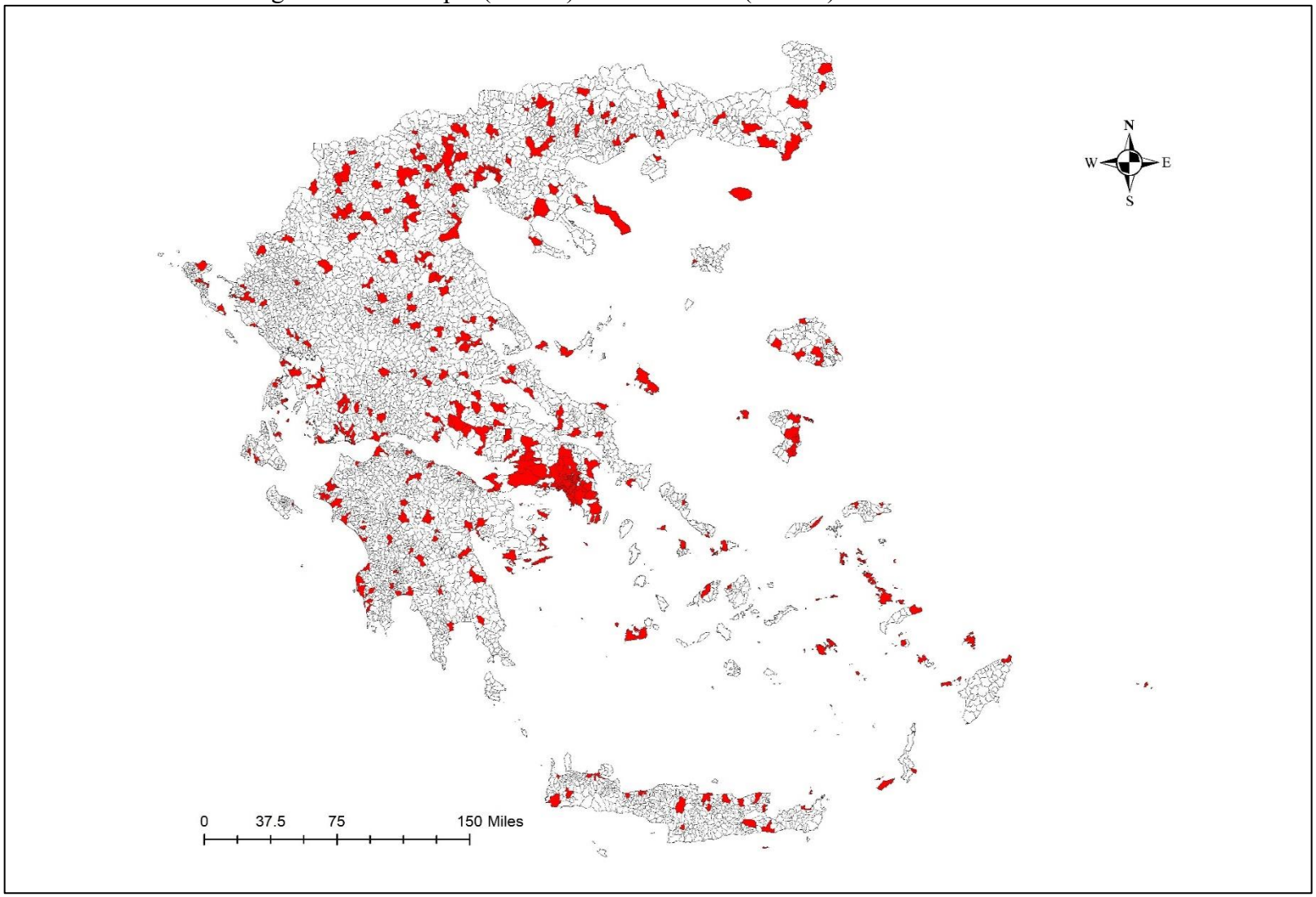
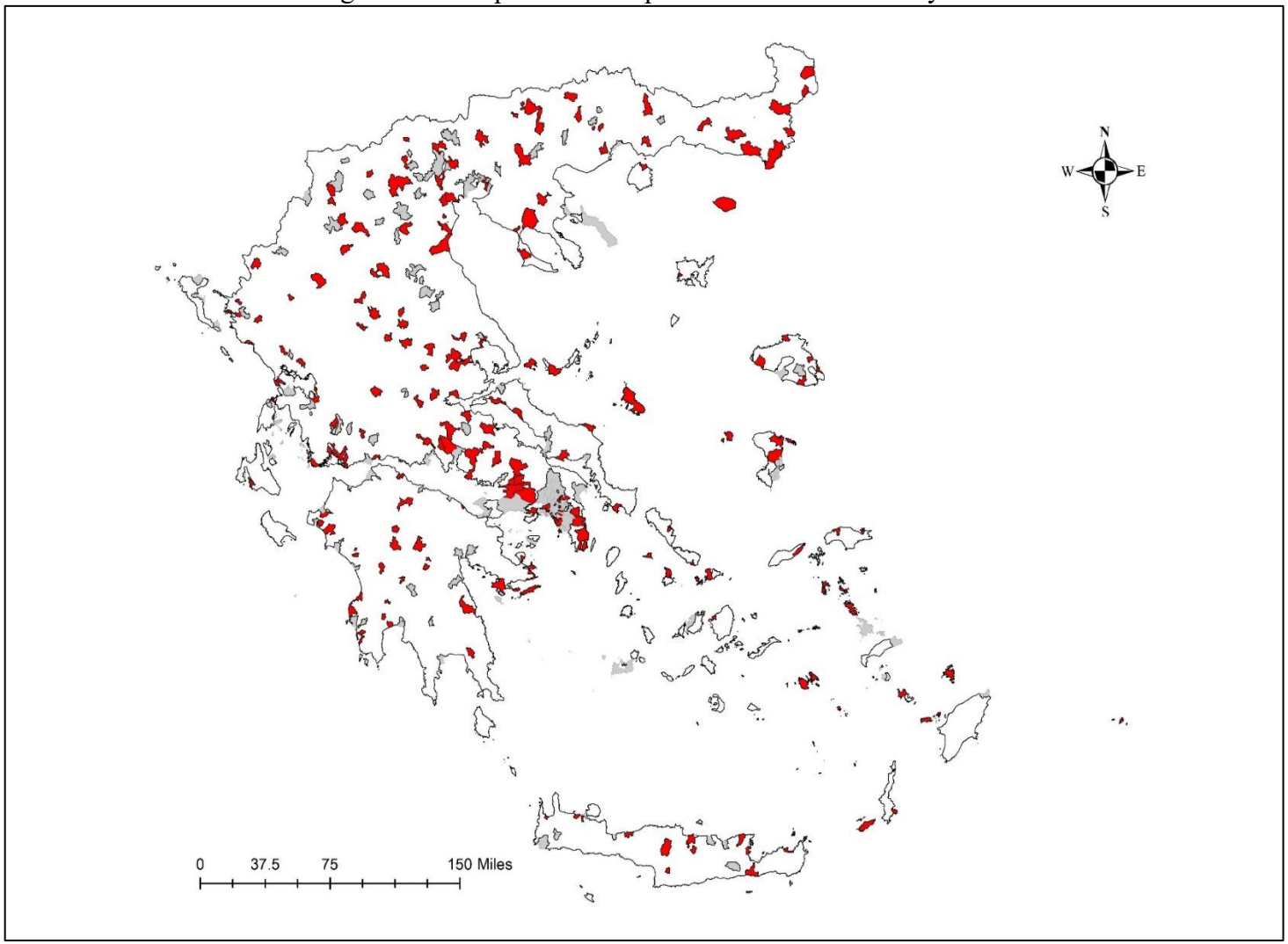


Figure B3. Municipal (LAU-1) and communal (LAU-2) boundaries of Greece



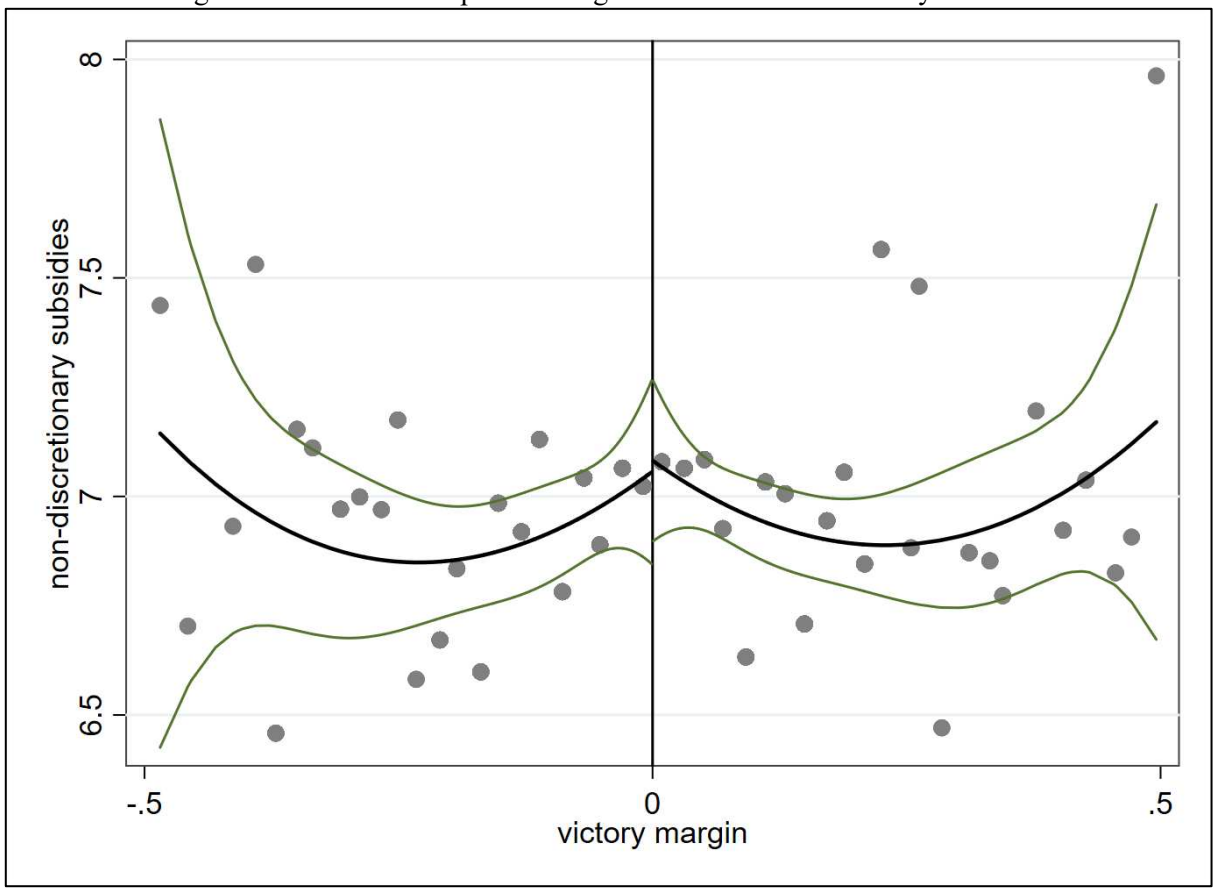
Notes: Red polygons indicate all the municipalities of our sample. The light grey lines indicate boundaries of smaller administrative divisions such as communities.

Figure B4. Sample of municipalities for the RDD analysis



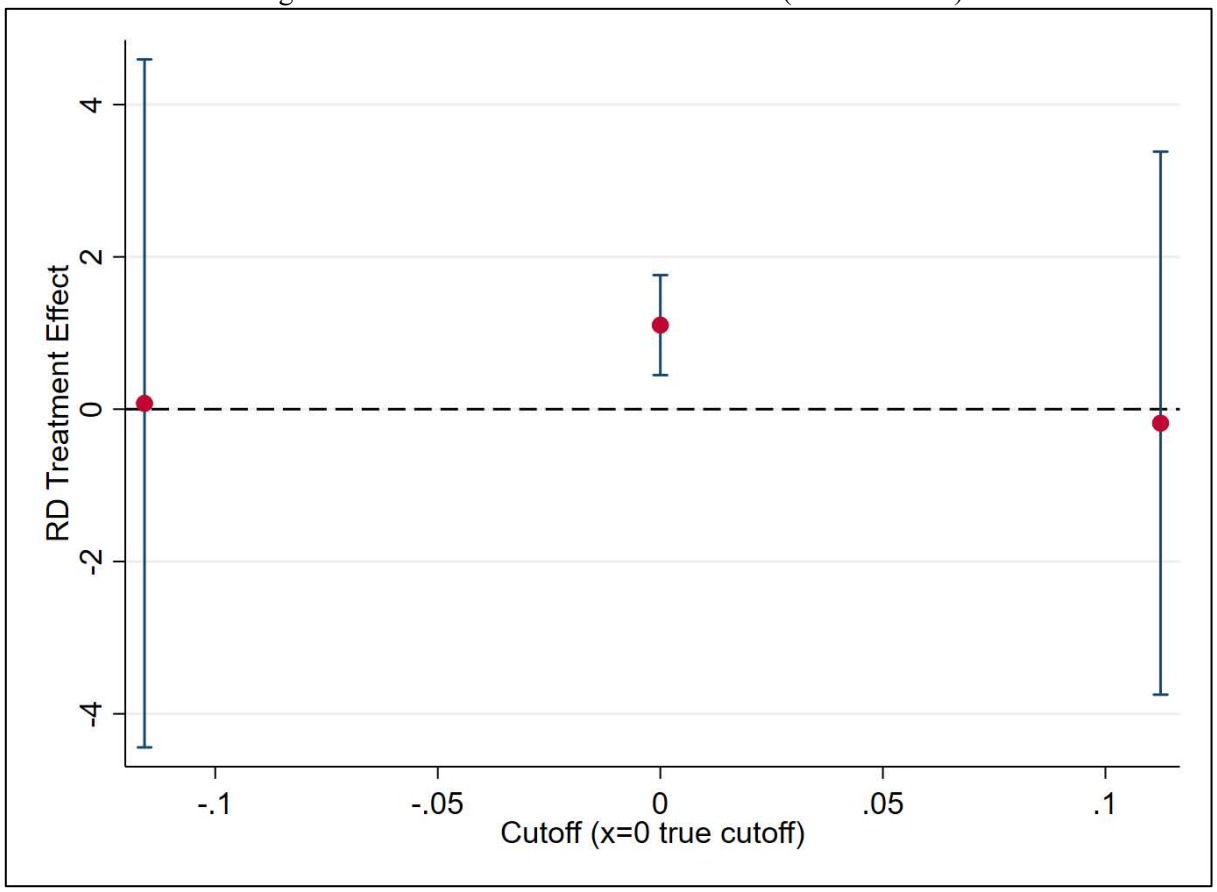
Notes: Red polygons indicate the 196 municipalities of our sample in the RDD analysis. Grey polygons indicate municipalities that do not appear in the sample.

Figure B5. The effect of political alignment on non-discretionary subsidies



Notes: See Figure 8.

Figure B6. True vs false electoral thresholds (Placebo Tests)



Notes: This graph shows the effect of alignment on subsidies based on the specifications of columns (2), (4) and (6) in Table B8. Estimates are obtained using a third order spline polynomial specification as described on Equation (4).

Table B1. Definition of variables, data sources and descriptive statistics (Prefectural Level of Analysis)

Variable name	Description	Obs.	Mean	SD	Min	Max	Source
prefectural expenses	Total prefectural expenses, expressed in real per capital terms	988	3345.209	2570.246	462.250	19888.424	Final fiscal accounts of the Greek state available in the Bank of Greece (BoG)
victory margin	The difference between incumbent share and opposition share. The former is measured as the valid votes for the incumbent party as a share of the voting-eligible population. The latter is measured as the valid votes for the opposition party (parties) as a share of the voting-eligible population. Between 1975-1981 the opposition is composed by vote shares received by the two leading opposition parties (i.e., EK-ND and PASOK), whereas between 1982-1993 by the leading opposition party ND.	988	0.063	0.111	-0.323	0.431	Ministry of Interior, Directorate of Elections
victory margin (valid votes)	The difference between *incumbent share* (valid votes) and *opposition share* (valid votes)	988	0.080	0.141	-0.405	0.556	
election	=1 in years of national elections, and 0 otherwise	988	0.316	0.465	0.000	1.000	
election (prelections years)	=1 in years and prelection years of national elections, and 0 otherwise	988	0.579	0.494	0.000	1.000	
PASOK	=1 in years between 1982-1989, when PASOK was in power, and 0 otherwise	988	0.421	0.494	0.000	1.000	
PASOK (term 1)	=1 in years between 1982-1985, when PASOK was in power, and 0 otherwise	988	0.211	0.408	0.000	1.000	
PASOK (term 2)	=1 in years between 1986-1989, when PASOK was in power, and 0 otherwise	988	0.211	0.408	0.000	1.000	
victory margin1981	Valid votes that *PASOK* received in the election of 1981 as a share of the voting-eligible population	988	0.072	0.093	-0.142	0.381	
victory margin1981 (valid votes)	Valid votes that *PASOK* received in the election of 1981 as a share of the valid votes cast	988	0.089	0.116	-0.192	0.462	
ND	=1 in years between 1975-1981 and 1990-1993, when ND was in power, and 0 otherwise	988	0.579	0.494	0.000	1.000	
ND(term 1)	=1 in years between 1975-1977, when ND was in power, and 0 otherwise	988	0.158	0.365	0.000	1.000	
ND(term 2)	=1 in years between 1978-1981, when ND was in power, and 0 otherwise	988	0.211	0.408	0.000	1.000	
victory margin1974	Valid votes that ND received in the election of 1974 as a share of the voting-eligible population	988	0.169	0.147	-0.323	0.431	
victory margin1974 (valid votes)	Valid votes that ND received in the election of 1974 as a share of the valid votes cast	988	0.217	0.187	-0.405	0.556	
population	Total population at the prefecture level expressed in thousands	988	189.301	420.777	20.993	3150.807	Digital library of the Hellenic Statistical Authority (ELSTAT)
electricity	The share of households with access to electricity	988	0.951	0.056	0.505	1.001	
agriculture	The share of individuals employed in the agricultural sector	988	0.384	0.155	0.006	0.734	
illiterates	The share of illiterate individuals	988	0.112	0.043	0.033	0.285	

Notes: Prefectural expenses are in levels, though in regressions they are expressed in logarithmic terms.

Table B2. Definition of variables, data sources and descriptive statistics (Municipal Level of Analysis)

Variable name	Description	Obs.	Mean	SD	Min	Max	
subsidies	Total discretionary subsidies from the central government, expressed in real per capital terms	361	2391.149	2589.566	0.000	16016.331	Digital library of the Hellenic Statistical Authority (ELSTAT)
non-discretionary subsidies	Total non-discretionary subsidies from the central government, expressed in real per capital terms	361	1167.492	577.173	209.043	3832.327	
alignment	= 1 if the mayor is aligned with the central government, and 0 otherwise	361	0.546	0.499	0.000	1.000	Ilias Nicolacopoulos data
VM	The difference of the vote share between the aligned and non-aligned mayor candidates	361	0.015	0.179	-0.576	0.523	
experience	Number of terms the mayor has served since the restoration of democracy	361	1.654	0.795	1.000	5.000	
candidate	=1 if the mayor runs for re-election, and 0 otherwise	361	0.698	0.460	0.000	1.000	
abstention	The share of absent voters from the electoral process	361	0.256	0.107	0.018	0.808	
turnout above median	=1 for municipalities that the level belong in the first quarter of the distribution according to the variable *abstention*, and 0 otherwise	361	0.498	0.502	0.000	1.000	Ministry of Interior, Directorate of Elections
victory margin	The difference between incumbent and opposition parties share of votes in the national elections	361	0.089	0.172	-0.525	0.595	
political strongholds	=1 for municipalities that belong in the fourth quarter of the distribution according to the variable *victory margin*, and 0 otherwise	361	0.252	0.435	0.000	1.000	
ND	=1 in years between 1975-1981 and 1990-1993, when ND was in power, and 0 otherwise	361	0.629	0.484	0.000	1.000	
population	Total population at the prefecture level expressed in thousands	361	10369.305	25675.799	189.000	4.06e+05	Digital library of the Hellenic Statistical Authority (ELSTAT)
population above median	=1 for municipalities with values in population above the median, and 0 otherwise	361	0.499	0.501	0.000	1.000	
electricity	The share of households with access to electricity	361	0.907	0.086	0.340	1.019	
agriculture	The share of individuals employed in the agricultural sector	361	0.118	0.105	0.000	0.446	
illiterates	The share of illiterate individuals	361	0.096	0.045	0.008	0.264	

Notes: Subsidies and non-discretionary subsidies are in levels, though in regressions they are expressed in logarithmic terms.

Table B3. Testing for difference between means of aligned and non-aligned municipalities

	Aligned	**Obs.**	**Non-Aligned**	**Obs.**	**p-Value**
subsidies	7.307	197	6.445	164	0.000
non-discretionary subsidies	6.967	197	6.934	164	0.503
experience	1.574	197	1.75	164	0.036
candidate	0.711	197	0.683	164	0.569
abstention	0.257	197	0.255	164	0.852
victory margin	0.134	197	0.036	164	0.000
population	6908.36	197	1.50E+04	164	0.005
electricity	0.898	197	0.918	164	0.029
agriculture	0.125	197	0.109	164	0.166
illiterates	0.101	197	0.09	164	0.017

Table B4. Political support and the allocation of prefectural expenses: Political support variables as shares of valid votes cast

election variable	*No interaction*	*National election year*	*National election and preelection years*
		(1)	(2)
victory margin	0.120**	0.113*	0.075
	(0.058)	(0.059)	(0.060)
*victory margin*election*		0.023	0.079*
		(0.048)	(0.047)
Observations	988	988	988
R^2	0.944	0.944	0.944

Notes: The table reports OLS estimates of Equations (1) and (2). Prefecture and year fixed effects are included. The dependent variable is the natural logarithm of the real per capita *prefectural expenses*. All models control for the *population*, *electricity*, *agriculture*, and *illiterates*, but these coefficients are not reported to save space. Robust standard errors, clustered by prefecture, are reported in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table B5. Political support and the allocation of prefectural expenses: Testing for outliers

election variable	*No interaction*	*National election year*	*National election and pre-election years*
		(1)	(2)
victory margin	0.161**	0.135**	0.076
	(0.065)	(0.054)	(0.058)
*victory margin*election*		0.087	0.164***
		(0.078)	(0.057)
Observations	941	941	940
R^2	0.964	0.964	0.964

Notes: The table reports OLS estimates of Equation (1). Prefecture and year fixed effects are included. In all regressions, we remove observations with standardized residuals above 1.96 or below -1.96. The dependent variable is the natural logarithm of the real per capita *prefectural expenses*. All models control for the *population*, *electricity*, *agriculture*, and *illiterates*, but these coefficients are not reported to save space. Robust standard errors, clustered by prefecture, are reported in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table B6. Political support and the allocation of prefectural expenses (DD): Robustness checks

party in power	*PASOK*					*ND*			
victory margin	*victory margin$_{1981}$*					*victory margin$_{1974}$*			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
*party*victory margin*	0.463**	0.432***	0.502**			0.203**	0.181**	0.148*	
	(0.208)	(0.133)	(0.247)			(0.094)	(0.085)	(0.081)	
*party term 1*victory margin*				0.439**					0.237
				(0.214)					(0.150)
*party term 2*victory margin*				0.828**					0.228**
				(0.325)					(0.111)
trend					0.052**				
					(0.021)				
trend victory margin*					0.001				
					(0.038)				
Observations	780	743	988	780	416	780	746	988	780
R^2	0.934	0.959	0.945	0.935	0.719	0.933	0.958	0.944	0.933

Notes: Columns (1) and (6) list the DD coefficient estimates of Equation (3). The dependent variable is the natural logarithm of the real per capita *prefectural expenses*. In comparison to estimates in Table 2, the variables *victory margin* for the terms of PASOK and ND are expressed as percentages of valid votes cast (instead of the voting eligible population). Columns (2) and (7) list the DD coefficient estimates of Equation (3), after removing observations with standardized residuals above 1.96 or below -1.96. Columns (3) and (8) list the DD coefficient estimates of Equation (3), after expanding the sample between 1975-1993 (instead of 1975-1989 applied in Table 2). In columns (4) and (9) we split the DD coefficient in two sub-periods for each party that was in power – i.e., 1982-1985 and 1986-1989 during PASOK administration, and 1975-1977 and 1978-1981 during ND administration. Finally, in column (5) we test the parallel trend hypothesis for the administration of PASOK. In particular, we test whether high *victory margin$_{1981}$* prefectures had different trends before 1982. Prefecture and year fixed effects are included in all columns but column (5) includes only prefecture fixed effects. All models control for the *population*, *electricity*, *agriculture*, and *illiterates*, but these coefficients are not reported to save space. Robust standard errors, clustered by prefecture, are reported in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table B7. RDD heterogeneity

variable	*ND*	*population above the median*	*candidate*	*political strongholds*	*turnout above median*
	(1)	(2)	(3)	(4)	(5)
alignment	0.748	1.360***	1.627***	1.167***	0.896*
	(0.492)	(0.510)	(0.605)	(0.366)	(0.545)
variable	-2.340***	-0.299	0.463	0.443	-0.568
	(0.543)	(0.559)	(0.559)	(0.850)	(0.577)
*alignment*variable*	0.501	-0.566	-0.780	0.468	0.475
	(0.625)	(0.701)	(0.703)	(0.938)	(0.723)
Observations	361	361	361	361	361
R^2	0.386	0.415	0.376	0.386	0.390

Notes: Column titles refer to the variable that is interacted with the variable *alignment*. This table shows RDD estimates of Equation (4) using a third order spline polynomial specification. All models control for the *experience*, *candidate*, *abstention*, *victory margin*, *population*, *electricity*, *agriculture*, and *illiterates*, and term fixed effects but these coefficients are not reported to save space. Robust standard errors, clustered at the municipality level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table B8. True vs false electoral thresholds (Placebo tests)

covariates	No	Yes	No	Yes	No	Yes
	(1)	(2)	(3)	(4)	(5)	(6)
alignment	-0.331	0.076	1.048***	1.104***	-0.977	-0.183
	(2.558)	(2.283)	(0.337)	(0.333)	(1.830)	(1.802)
Observations	164	164	361	361	197	197
R^2	0.308	0.444	0.302	0.369	0.229	0.280
cut-off	-0.116	-0.116	0	0	0.112	0.112

Notes: The dependent variable is the natural logarithm of the real per capita (discretionary) *subsidies*. This table shows RDD estimates of Equation (4) using a third order spline polynomial specification. Columns (2), (4) and (6) control for the *experience*, *candidate*, *abstention*, *victory margin*, *population*, *electricity*, *agriculture*, *illiterates*, and term fixed effects but these coefficients are not reported to save space. Robust standard errors, clustered at the municipality level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.